

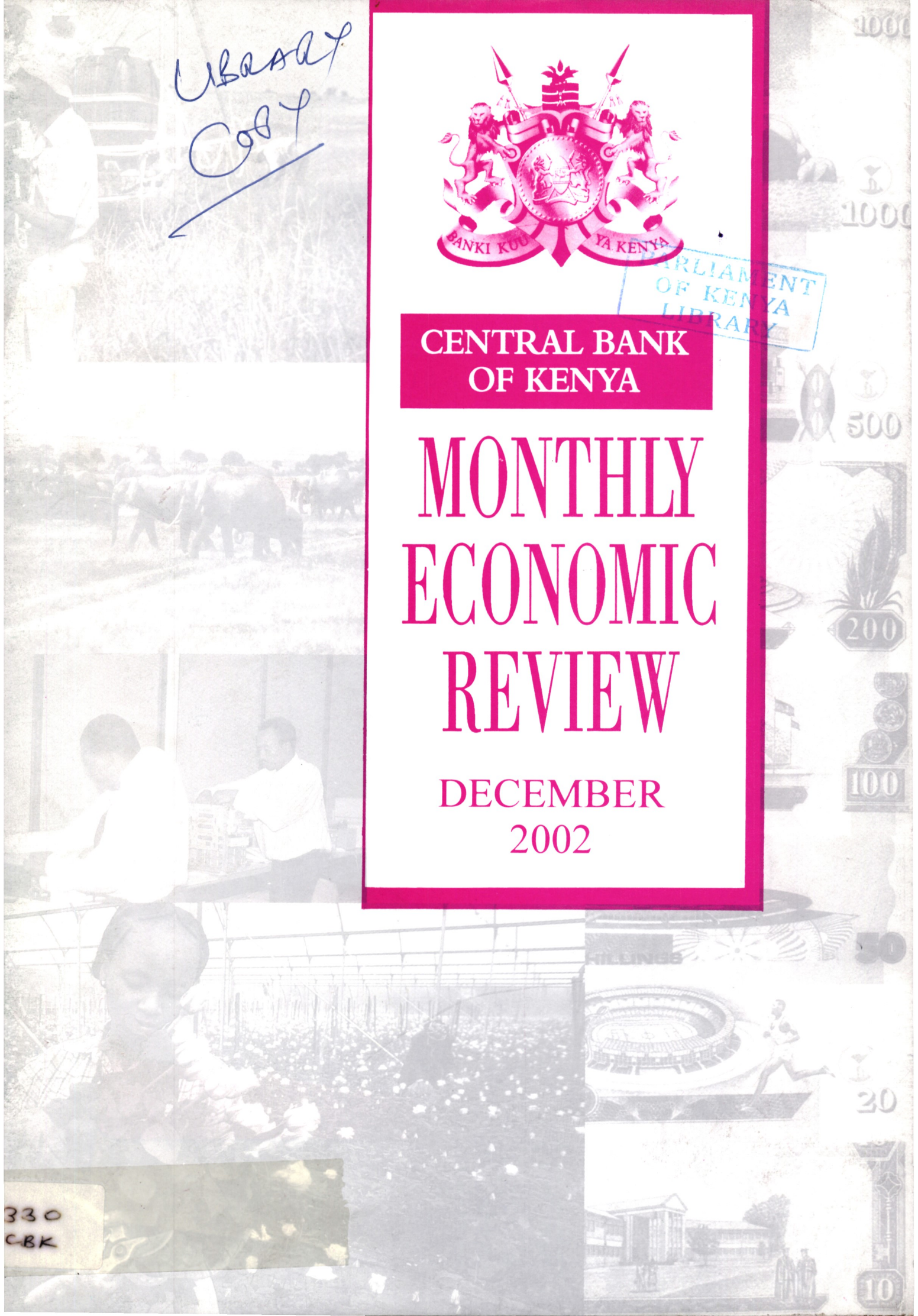
*Ubasat  
COPY*



**CENTRAL BANK  
OF KENYA**

# MONTHLY ECONOMIC REVIEW

**DECEMBER  
2002**



330  
CBK

## **OBJECTIVES OF THE CENTRAL BANK OF KENYA**

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

### **PRINCIPAL OBJECTIVES**

1. The first principal objective shall be to formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices
2. The second principal objective shall be to foster the liquidity, solvency and proper functioning of a stable market based financial system

### **SECONDARY OBJECTIVES**

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

1. Formulate and implement foreign exchange policy
2. Hold and manage its foreign exchange reserves
3. License and supervise authorised dealers in the money market
4. Promote the smooth operation of payments, clearing and settlement systems
5. Act as a banker and adviser to, and as fiscal agent of the Government; and
6. Issue currency notes and coins

KENYA NATIONAL ASSEMBLY  
Accession: 10013272

Call no: 330 CBK





## 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)

## CONTENTS

Highlights of the December Economic Review .....	2
Inflation .....	6
Money and Credit .....	8
Banking Sector Developments .....	11
Interest Rates .....	15
Shilling Exchange Rate .....	16
Budgetary Developments .....	18
Public Debt .....	21
Balance of Payments .....	24
Stock Market .....	27
Real Sector .....	28
Balance Sheet of the Central Bank of Kenya .....	32

*Information in this review may be reproduced without restriction  
provided that due acknowledgement of the source is made.*

*Enquiries concerning the review should be addressed to:  
The Director of Research, Central Bank of Kenya  
P. O. Box 60000, Nairobi.*

---

## HIGHLIGHTS OF THE DECEMBER ECONOMIC REVIEW

It is estimated that **real GDP** grew at an annualized rate of 0.7% in the first nine months of 2002 compared with 0.8% in a similar period of 2001. The 12-month underlying **inflation** rose to 2.0% in November from 1.5% in October 2002. The overall 12-month inflation also increased to 2.7% in November from 1.9% in October 2002.

**Interest rate** for the 91-day Treasury bill increased to 8.3% in November 2002 from 8.1% in October. **Money supply**, M3X, increased by 7.0% in the year to October 2002 compared with 3.3% 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.

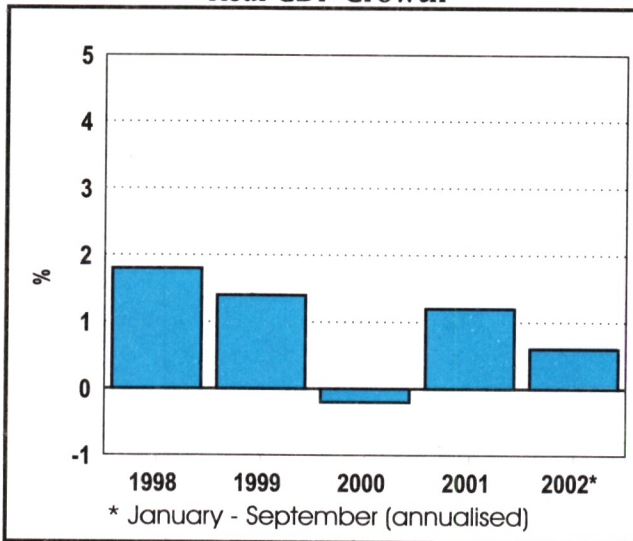
Assets of the **banking sector** increased by Ksh 21.4bn or 5.0% to Ksh 449.4bn at the end of October 2002 from Ksh 428.0bn at the end of October 2001. Non-performing loans (NPLs), net of interest in suspense, were estimated at Ksh 72.5bn or 29.9% of total loans in October 2002, compared with Ksh 79.5bn or 32.0% in October 2001. Provisions for the NPLs declined from Ksh 32.2bn in October 2001 to Ksh 31.3bn in October 2002. Adjusted for the provisions and the value of securities held by the banking sector estimated at Ksh 44.9bn, the banks were covered in excess of Ksh 1.1bn.

**Government fiscal operations** during the first four months of fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 14.9bn or 1.5% of GDP compared with a deficit of Ksh 4.6bn in a similar period in the previous fiscal year. The stock of public debt increased to Ksh 624.1bn in October 2002 from Ksh 613.8bn in June 2002. The increase was entirely in domestic debt as external debt declined.

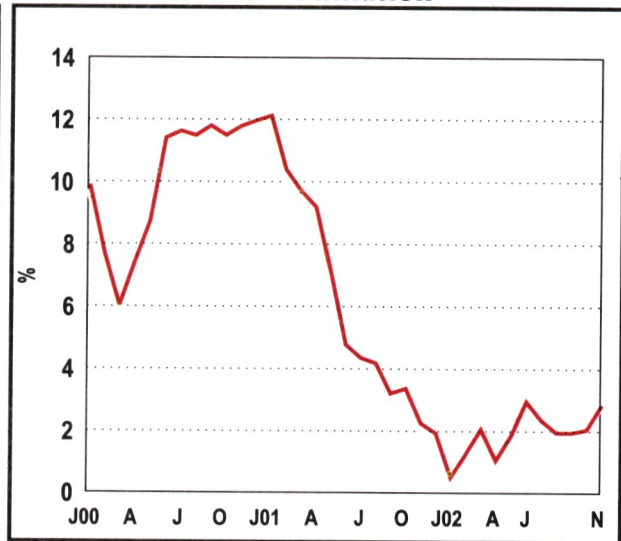
The **Kenya shilling** marginally lost to the US dollar in November 2002 to exchange at Ksh 79.6 compared with Ksh 79.3 in October 2002. The **balance of payments** strengthened to a US\$ 112m surplus in the year to October 2002 from a US\$ 29m surplus over similar period in 2001. The Central Bank **foreign exchange reserves** consequently increased to US\$ 1,096m or 3.5 months of imports cover at the end of October 2002 from US\$ 1,021m at the end of October 2001.

# SELECTED PERFORMANCE INDICATORS

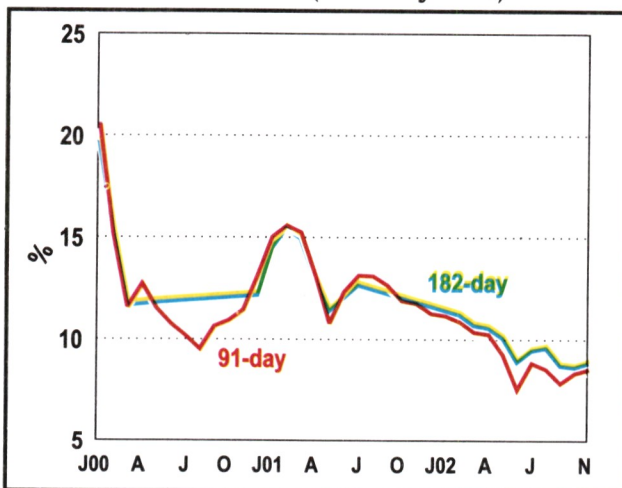
## Real GDP Growth



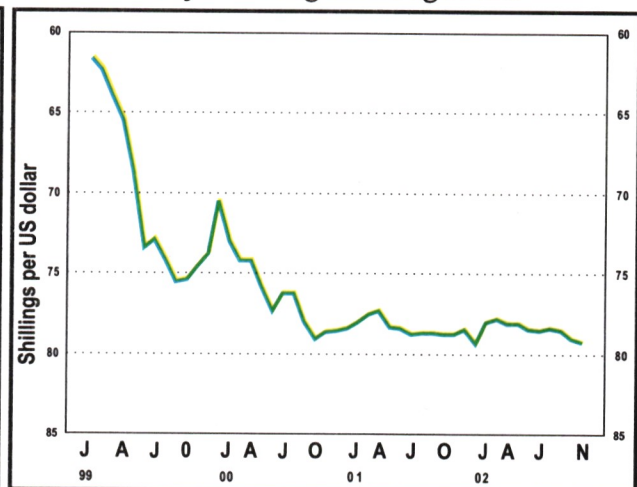
## Overall Inflation



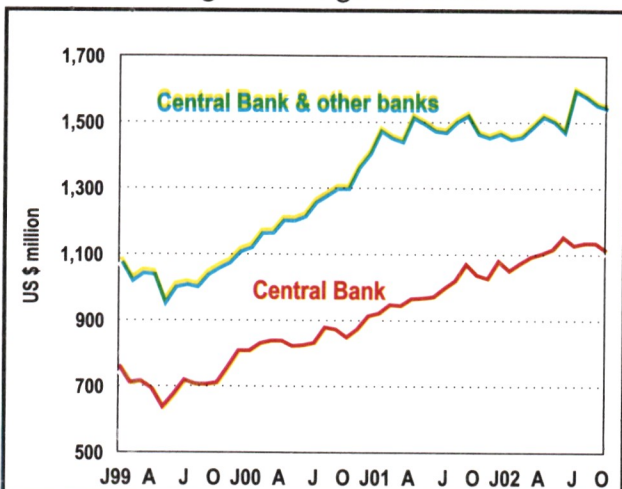
## Interest Rate (Treasury Bills)



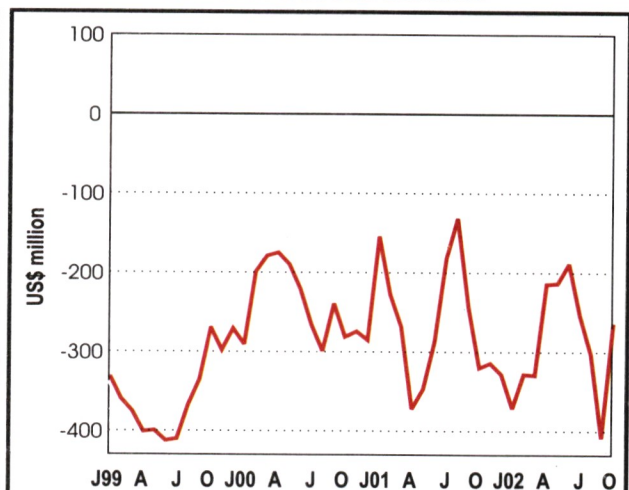
## Kenya Shilling Exchange Rate



## Foreign Exchange Reserves



## Current Account Balance



Source: Central Bank of Kenya

## SELECTED ANNUAL ECONOMIC INDICATORS, 1997 - 2001

INDICATOR	1997	1998	1999	2000	2001*
<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>147</b>
Current Account	-450	-549	-214	-288	-229
Capital and Financial Account	417	615	193	279	376
<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)	(3.5)
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	2.7
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
<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.

\*\* 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	Jul	Aug	Sep	Oct	Nov*
<b>1. INFLATION (%)</b>									
<b>Overall (Urban)</b>									
12-month	1.8	0.4	1.9	2.8	2.2	1.8	1.8	1.9	2.7
Average annual	5.8	4.8	3.5	2.3	2.1	1.9	1.8	1.7	1.7
<b>Underlying (overall excluding food)</b>									
12-month	5.1	3.0	3.4	2.9	2.0	1.5	1.4	1.5	2.0
Average annual	6.7	6.2	5.5	4.6	4.3	3.9	3.4	3.0	2.7
<b>2. INTEREST RATES (%)</b>									
91-day Treasury bill	11.0	10.9	10.1	7.3	8.6	8.3	7.6	8.1	8.3
Overdraft	20.0	19.3	18.8	18.5	18.3	18.6	18.5	18.9	17.8
<b>3. STOCK MARKET</b>									
Nairobi Stock Exchange Price Index	1355.1	1343.0	1183.1	1082.6	1097.7	1043.4	1043.4	1116.4	1161.6
Trade Turnover (%)	0.17	0.15	0.21	0.19	0.29	0.27	0.36	0.23	0.40
<b>4. GOVERNMENT BUDGET** (Ksh bn.)</b>									
Revenue and Grants	93.8	110.5	142.3	203.3	13.6	30.1	48.5	64.4	..
Expenditure:	102.2	122.4	157.6	225.6	17.5	39.8	58.9	79.3	..
<b>Budget Deficit (-) / Surplus (+)</b>	<b>-8.4</b>	<b>-12.0</b>	<b>-15.3</b>	<b>-22.3</b>	<b>-3.8</b>	<b>-9.7</b>	<b>-10.4</b>	<b>-14.9</b>	..
<b>5. MONEY AND CREDIT (Ksh bn.)</b>									
Money Supply (M3XT)	462.1	460.2	466.4	483.9	487.9	499.1	502.8	502.8	..
Money Supply (M3X)	368.4	360.6	366.1	378.3	381.2	389.8	387.4	387.3	..
Reserve Money	79.1	73.6	75.8	76.9	83.0	77.6	78.6	77.1	..
<b>Total Domestic Credit</b>	<b>334.0</b>	<b>325.8</b>	<b>329.5</b>	<b>341.8</b>	<b>345.4</b>	<b>355.0</b>	<b>350.7</b>	<b>350.5</b>	..
Government	89.1	84.2	88.6	94.7	100.4	102.2	98.1	98.8	..
Private Sector	244.9	241.7	240.8	247.2	245.0	252.8	252.6	251.6	..
<b>6. MONEY AND CREDIT (Annual % Change)</b>									
Money Supply (M3XT)	6.1	4.3	5.7	8.4	8.6	11.6	11.4	10.6	..
Money Supply (M3X)	2.3	0.0	2.1	6.7	7.6	10.9	8.4	7.0	..
Reserve Money	1.8	3.4	8.2	10.9	16.7	5.0	12.6	6.9	..
<b>Total Domestic Credit</b>	<b>0.8</b>	<b>-1.2</b>	<b>-0.6</b>	<b>5.4</b>	<b>5.5</b>	<b>8.6</b>	<b>6.2</b>	<b>4.7</b>	..
Government	16.5	14.9	16.7	37.9	40.2	37.2	27.9	17.2	..
Private Sector	-3.9	-5.9	-5.7	-3.4	-4.2	0.1	-0.4	0.5	..
<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>-20</b>	<b>11</b>	<b>5</b>	<b>5</b>	..
Current Account Balance	-11	-51	-67	51	-30	-75	-73	-20	..
Trade Balance	-83	-83	-119	-45	-89	-141	-141	-86	..
Capital and Financial Account	53	27	91	-8	10	86	78	25	..
<b>8. FOREIGN EXCHANGE RESERVES (US \$ m)</b>	<b>1459</b>	<b>1442</b>	<b>1479</b>	<b>1563.2</b>	<b>1588</b>	<b>1570</b>	<b>1548</b>	<b>1548</b>	..
Official***	1064	1035	1077	1137	1112	1119	1119	1119	..
Months of imports	(3.2)	(3.1)	(3.4)	(3.6)	(3.5)	(3.5)	(3.5)	(3.6)	..
Commercial banks	395	406	402	427	476	451	429	429	..
<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>8.0</b>	<b>7.8</b>	..
Domestic	2.8	2.8	2.9	3.0	3.1	3.1	3.2	3.2	3.2
As % of GDP	23.9	24.2	24.9	25.6	24.6	25.1	25.5	25.5	26.0
External	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.7	..
As % of GDP	41.8	41.5	41.3	41.1	38.3	38.3	38.1	37.9	..
<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>242.1</b>	<b>247.2</b>	<b>250.8</b>	<b>251.2</b>	<b>255.2</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>78.6</b>	<b>78.8</b>	<b>79.3</b>	<b>79.5</b>
Ksh/Pound Sterling	113.2	112.8	111.1	116.6	122.6	120.8	122.5	123.6	126.1
Ksh/ 100 Yen	61.9	59.3	59.5	63.7	66.7	66.0	65.2	64.0	65.1
Ksh/Euro	70.2	69.5	68.4	75.1	78.3	76.9	77.3	77.8	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 lent 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 rose in November 2002. The increase in inflation was largely attributed to non-monetary factors, namely increases in the prices of basic food items particularly maize products and green groceries. The increase in the price of paraffin also contributed to inflationary pressure.

### Overall Inflation

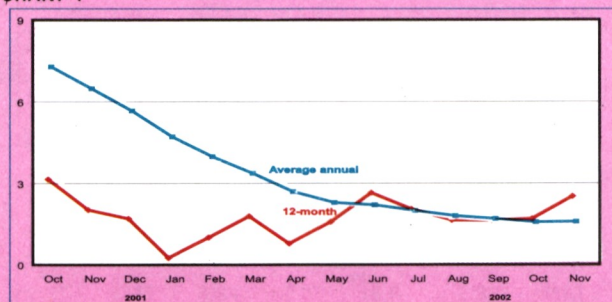
Following increases in the prices of basic food items, the overall inflation edged up in November 2002 as indicated below (Table 1 and Chart 1):

- The overall 12-month inflation increased to 2.7% from 1.9% in October 2002.
- In November 2002 alone, the increase in overall inflation was 0.5% compared with 0.2% in October 2002.

TABLE 1: OVERALL INFLATION (%)

	2001					2002					
	Jan	Jun	Sep	Oct	Nov	Dec	Jan	Jun	Sep	Oct	Nov
12-month <sup>1</sup>	12.0	4.6	3.1	3.2	2.1	1.8	0.4	2.8	1.8	1.9	2.7
Average annual <sup>2</sup>	10.2	10.1	8.1	7.4	6.6	5.8	4.8	2.3	1.8	1.7	1.7
Changes over one month	0.9	0.2	-0.3	0.2	0.5	-0.2	-0.5	1.2	-0.3	0.2	0.5
Changes over 3 months	1.9	2.3	0.1	0.1	-0.5	-0.3	-0.9	3.4	-1.0	-0.2	0.4

CHART 1



Sources: Central Bureau of Statistics & Central Bank of Kenya

<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 overall average annual inflation, however, remained at 1.7% in October and November 2002.

### Underlying Inflation

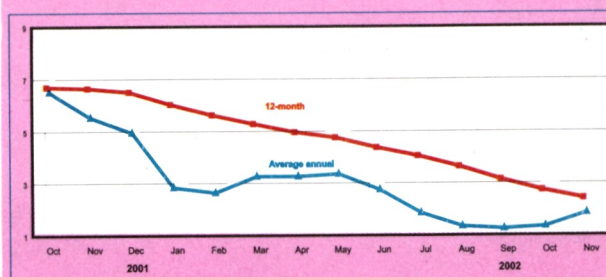
In November 2002, the underlying inflation, which excludes food prices evolved as follows (Table 2 and Chart 2):

- The underlying 12-month inflation increased to 2.0% from 1.5% in October.
- In November 2002 alone, the underlying inflation increased by 0.3% compared with an increase of 0.2% in October.
- The underlying average annual inflation, however, declined to 2.7% from 3.0% over the period.

TABLE 2: UNDERLYING INFLATION (%)

	2001					2002					
	Jan	Jun	Sep	Oct	Nov	Dec	Jan	Jun	Sep	Oct	Nov
12-month	8.3	6.7	6.5	6.6	5.7	5.1	3.0	2.9	1.4	1.5	2.0
Average annual	6.8	7.1	6.8	6.9	6.8	6.7	6.2	4.6	3.4	3.0	2.7
Changes over one month	1.5	0.6	0.3	0.1	-0.2	0.2	-0.5	0.0	0.2	0.2	0.3
Changes over 3 months	3.0	1.6	1.8	0.9	0.2	0.1	-0.6	1.2	0.3	0.4	0.8

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 increased in November 2002 as shown in Table 3 and Chart 3:

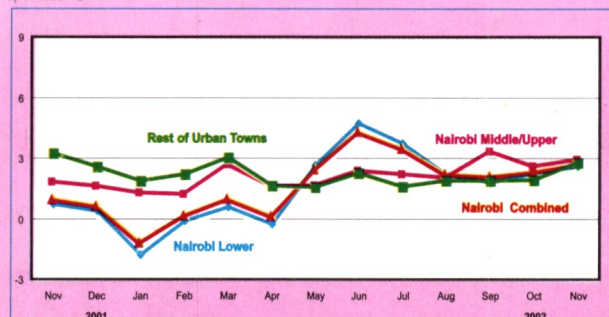


- The 12-month inflation in goods and services purchased by the Nairobi lower income group, increased to 2.4% from 2.1% in October.
- The 12-month inflation in goods and services purchased by the Nairobi middle/upper income group rose to 2.8% from 2.5% in October.
- As a result, the 12-month inflation in goods and services purchased by the combined Nairobi income groups increased to 2.5% from 2.1% in the period.
- The 12-month inflation in goods and services purchased by consumers in the rest of urban towns also increased to 2.6% from 1.7% in the review period.

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

	2001					2002					
	Jan	Jun	Sep	Oct	Nov	Dec	Jan	Jun	Sep	Oct	Nov
Nairobi Lower	11.5	1.3	1.3	1.3	0.5	0.2	-2.0	4.5	1.6	2.1	2.4
Nairobi middle/upper	8.7	4.6	1.3	2.6	1.7	1.5	1.2	2.2	3.2	2.5	2.8
Nairobi Combined	10.9	1.9	1.3	1.6	0.8	0.4	-1.4	4.1	1.9	2.1	2.5
Rest of Urban Towns	12.7	6.4	4.2	4.3	3.0	2.4	1.7	2.1	1.7	1.7	2.6

CHART 3



Sources: Central Bureau of Statistics & Central Bank of Kenya

## Inflation by Categories of Goods and Services

During the month, the highest increases in inflation were recorded in food and soft drinks, fuel and power, and medical goods and services,

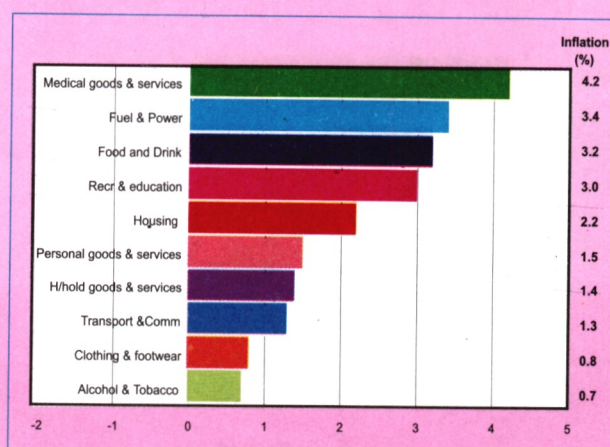
which increased to 3.2%, 3.4% and 4.2%, respectively, from 2.2%, 1.8% and 3.0% in October. Inflation in housing; and transport and communication also increased to 2.2% and 1.3%, respectively, from 1.8% and 0.1% in October. Inflation in recreation and education, alcohol and tobacco, and clothing and footwear, however, declined as shown in Table 4 and Chart 4.

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

Goods and Services	Income Groups*			Combined weights (100)	Inflation (%)	
	Nairobi Lower (31.9)	Middle/Upper (8.0)	Rest of Urban Towns (60.1)		Oct	Nov
Food and Drink	55.7	31.9	50.2	50.5	2.2	3.2
Housing	11.9	31.7	9	11.7	1.8	2.2
Recr & education	4.6	7.3	6.6	6.0	3.5	3.0
H/hold goods & services	5	4.7	6.4	5.8	1.2	1.4
Clothing & footwear	9.2	7.4	9.1	9.0	0.9	0.8
Transport & Comm	5.1	10.2	5.5	5.7	0.1	1.3
Fuel & Power	3.5	2.2	4.8	4.2	1.8	3.4
Medical goods & services	0.9	1.3	2	1.6	3.0	4.2
Personal goods & services	2.3	1.9	2.6	2.4	1.5	1.5
Alcohol & Tobacco	1.8	1.4	3.8	3.0	0.9	0.7

\* Numbers in parentheses are income group weights

CHART 4



Sources: Central Bureau of Statistics & Central Bank of Kenya

## Outlook

Modest inflationary pressures are expected to arise during the festive month of December due to increased household expenditure. Inflation is, however, expected to remain confined to the 5% target supported by the continued prudent monetary policy stance and the relative stability in the shilling exchange rate.

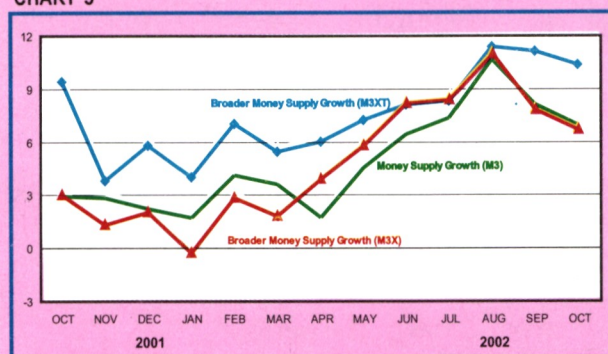
## MONEY AND CREDIT

Money supply increased more rapidly in the twelve months to October 2002 than programme targets and increases in the year to October 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 7.2% compared with 1.2% target growth and 3.2% increase in the year to October 2001. Broad money supply, M3X, which comprises M3 and residents foreign currency deposits increased by 7.0% compared with 1.5% target growth and 3.3% increase in the twelve months to October

TABLE 5: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

	2001			2002					
	Jun	Sep	Dec	Jan	Mar	Jun	Aug	Sep	Oct
M3	-1.3	0.7	2.5	2.0	3.9	8.5	11.3	8.1	10.6
M3X	2.1	1.7	2.3	0.0	2.1	6.7	10.9	8.4	7.2
M3XT	5.3	8.1	6.1	4.3	5.7	8.4	11.6	11.4	7.0

CHART 5



Source: Central Bank of Kenya

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

	Oct	Oct	Annual Change	
	2001	2002	Absolute	%
<b>1. Money supply, M3XT 1/</b>	<b>454.7</b>	<b>502.8</b>	<b>48.1</b>	<b>10.6</b>
<b>2. Money supply, M3X (4+5) 2/</b>	<b>362.0</b>	<b>387.3</b>	<b>25.3</b>	<b>7.0</b>
<b>3. Money supply, M3 3/</b>	<b>315.5</b>	<b>338.1</b>	<b>22.6</b>	<b>7.2</b>
Of which: M2	301.6	325.1	23.5	7.8
<b>4. Net foreign assets 4/</b>	<b>90.2</b>	<b>96.3</b>	<b>6.0</b>	<b>6.7</b>
Central Bank	71.1	74.4	3.3	4.7
Banking Institutions	19.2	21.9	2.7	14.1
<b>5. Net domestic assets (5.1+5.2)</b>	<b>271.8</b>	<b>291.0</b>	<b>19.3</b>	<b>7.1</b>
<b>5.1 Domestic credit (5.1.1+5.1.2)</b>	<b>334.7</b>	<b>350.5</b>	<b>15.7</b>	<b>4.7</b>
5.1.1 Government (net)	84.3	98.8	14.5	17.2
Central Bank	1.7	18.8	17.1	1003.7
Banking Institutions	82.6	80.1	-2.6	-3.1
5.1.2 Private sector and other public sector 5/	250.4	251.6	1.2	0.5
<b>5.2 Other net domestic assets (5-5.1)</b>	<b>-63.0</b>	<b>-59.5</b>	<b>3.5</b>	<b>5.6</b>
<b>6. Reserve money</b>	<b>72.1</b>	<b>77.1</b>	<b>5.0</b>	<b>6.9</b>
Currency in circulation	48.9	53.1	4.2	8.5
Banking Institutions' deposits with CBK	23.2	24.1	0.8	3.6
<b>Memorandum items</b>				
<b>Treasury bills outstanding</b>	<b>113.8</b>	<b>116.4</b>	<b>2.6</b>	<b>2.3</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 rate of Ksh 78.95 to the US dollar (Sept. 30th, 2001).

5/ Excludes interest in suspense.

Source: Central Bank of Kenya

2001. In line with the growth in M3X and an expansion in the holdings of government securities by the non bank public, the broader money supply, M3XT, increased by 10.6% compared with 7.4% target growth and 7.0% increase in the year to October 2001.

The increase in M3X, the intermediate money supply target used by Central Bank for monetary policy formulation, in the year to October 2002 arose from increases in both net foreign assets (NFA) and net domestic assets (NDA) of the banking system. The NFA increased by 6.7% in the year following build up of foreign assets at the Central Bank and a reduction of foreign liabilities by commercial banks. The NDA increased by 7.1% largely due to credit expansion to the Government from both the Central Bank and the banking institutions. Other domestic assets net of other liabilities similarly increased by 5.6% in the year to October 2002 compared with 6.2% decline in the year to October 2001.

## Reserve Money

Reserve money, comprising currency in circulation and deposits of commercial banks and NBFIs at the Central Bank, increased by 6.9% to Ksh 77.1bn in the twelve months to October 2002 compared with 6.3% target increase and 0.7% decrease in the year to October 2001 (Table 7 and Chart 6). The increase in reserve money was in both deposits of banking institutions and currency in circulation, which increased by 3.6% and 8.5% respectively.

The sources of the reserve money expansion during the twelve months to October 2002 were both the NFA and NDA of the Central Bank.

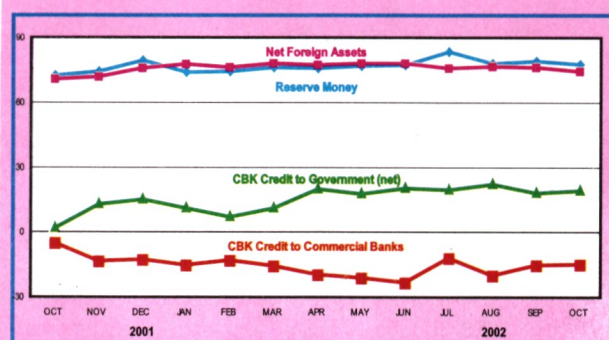
The NFA increased by 4.7% on account of purchases of foreign exchange from the inter-bank market while the NDA increased by Ksh 1.7bn largely in respect of net credit expansion to government. Developments in the components of NDA were as follows:

- Government net borrowing from the Central Bank increased by Ksh 17.1bn in the year to October 2002.
- Indebtedness to the Central Bank by commercial banks declined by Ksh 10.1bn. This reflected Ksh 14.6bn increase in holdings of commercial banks repurchase agreements due to mop up activities by Central Bank under the open market operations (OMO), which was partly offset by Ksh 4.5bn increase in overnight borrowing by commercial banks.
- Other domestic assets net of other domestic liabilities declined by Ksh 5.3bn.

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

	2001	2002	Annual Change	
	Oct	Oct	Absolute	%
1. Net Foreign Assets	71.1	74.4	3.3	4.7
2. Net Domestic Assets	1.0	2.7	1.7	166.3
2.1 Government Borrowing (net)	1.7	18.8	17.1	1,002.8
2.2 Advances & Discounts	-5.0	-15.1	-10.1	203.2
2.3 Other Domestic Assets (net)	4.3	-1.0	-5.3	-123.3
3. Reserve Money	72.1	77.1	5.0	6.9
3.1 Banks & NBFIs Deposits at CBK	23.2	24.1	0.8	3.5
3.2 Currency in Circulation	48.9	53.1	4.2	8.5

CHART 6



Source: Central Bank of Kenya

## Credit Developments

In the twelve months to October 2002, net domestic credit from the banking system increased by 4.7% compared with 0.3% increase in the year to October 2001. The credit expansion in the period under review was channelled to both the Government and the private sector.

Net credit to government during the review period increased by 17.2% compared with 3.0% increase in the year to October 2001. The credit was sourced wholly from Central Bank after the Government borrowed Ksh 6.4bn through the overdraft. At the same time, the Government run down its deposits at the Central Bank by Ksh 10.7bn.

Credit to the private and other public sectors increased by Ksh 1.2bn or 0.5% in the year to October 2002 compared with Ksh 1.6bn or 0.6% decline in the year to October 2001. The credit increase was wholly to the private sector as lending to other public sector institutions declined by Ksh 1.2bn. The private sector borrowed an additional Ksh 18.1bn to finance activities in private households, finance and

insurance, transport and communication, agriculture, real estate and building and construction. The additional borrowing was, however, partly offset by Ksh 15.6bn repayments by trade, manufacturing, business services, mining and quarrying and miscellaneous activities (Table 8).

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

	2001 Oct		2002 Oct		Annual Change		Oct'01 - Oct'02 %dist of ann change in credit to private sector
	-Ksh bn	Share (%)	Ksh bn	Share (%)	Ksh bn	(%)	
<b>1. Credit to other public sector</b>	<b>9.0</b>	<b>3.6</b>	<b>7.8</b>	<b>3.1</b>	<b>-1.2</b>	<b>-13.6</b>	
Local government	-0.2	-0.1	-0.1	0.0	0.1	-70.2	
Parastatals	9.2	3.7	7.8	3.1	-1.3	-14.7	
<b>2. Credit to private sector</b>	<b>241.4</b>	<b>96.4</b>	<b>243.8</b>	<b>96.9</b>	<b>2.4</b>	<b>1.0</b>	<b>100.0</b>
Agriculture	23.3	9.3	26.3	10.4	3.0	12.9	123.5
Manufacturing	54.3	21.7	49.8	19.8	-4.5	-8.4	-186.9
Trade	47.5	19.0	40.8	16.2	-6.7	-14.0	-274.2
Building and construction	19.1	7.6	19.8	7.9	0.8	4.1	32.4
Transport & communications	10.2	4.1	13.4	5.3	3.1	30.5	128.5
Finance & insurance	15.4	6.1	19.5	7.7	4.1	26.7	169.0
Real estate	20.4	8.1	21.8	8.7	1.4	6.8	57.2
Mining and quarrying	2.4	0.9	1.9	0.8	-0.4	-17.7	-17.3
Private households	10.7	4.3	15.7	6.2	5.1	47.4	208.2
Consumer durables	5.0	2.0	5.6	2.2	0.6	12.3	25.3
Business services	26.3	10.5	25.3	10.1	-0.9	-3.6	-38.8
Other activities	7.0	2.8	3.9	1.6	-3.1	-44.0	-126.8
<b>3. TOTAL (1+2) *</b>	<b>250.4</b>	<b>100.0</b>	<b>251.6</b>	<b>100.0</b>	<b>1.2</b>	<b>0.5</b>	

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

Source: Central Bank of Kenya

## BANKING SECTOR DEVELOPMENTS

### Structure of the Financial System

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

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

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

Source: Central Bank of Kenya

### Total Assets and Advances

Assets of the banking system increased to Ksh 449.4bn at the end of October 2002 from Ksh 428.0bn at the end of October 2001 (Table 10). Loans and advances, which accounted for 49% of total assets increased by Ksh 2.7bn to Ksh 251.6bn in October 2002 from Ksh 248.9bn in October 2001. The increase in total advances was mainly on account of increased lending to transport & communication, finance and insurance and private households.

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

	Oct	Oct	Change*	
	2001	2002	Absolute	%
<b>ASSETS</b>	<b>428.0</b>	<b>449.4</b>	<b>21.4</b>	<b>5.0</b>
Loans and Advances	248.9	251.6	2.7	1.1
Government Securities	92.6	94.7	2.1	2.3
Balances at Central Bank	23.8	24.7	0.9	3.8
Fixed Assets	17.6	18.8	1.2	6.9
Other Assets	26.6	39.6	13.0	49.0

\*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 2.3% to Ksh 94.7bn in October 2002 from Ksh 92.6bn in October 2001, and accounted for 21.1% of total assets. Cash deposited with the Central Bank increased to Ksh 24.7bn from Ksh 23.8bn, accounting for 6% of total assets.

### Asset Quality

At the end of October, 2002 the level of non-performing loans (NPLs) was estimated at Ksh 72.5bn or 29.9% of total loans, compared with Ksh 79.5bn or 32.0% of total loans in October 2001 (Table 11). The decline in NPLs was mainly attributed to write-offs by some institutions. The NPLs were mainly concentrated in ten institutions whose non-performing loans amounted to Ksh 45.1bn or 62% of the industry's total. Meanwhile, the level of provisions decreased from Ksh 32.2bn to Ksh 31.3bn in October 2002 reflecting the decrease in NPLs. The banking sector was adequately cushioned against the NPLs as the estimated value of securities increased substantially from Ksh 36.8bn to Ksh 44.9bn. On a net basis, therefore, the level of exposure fell to Ksh 1.1bn in October 2002 from Ksh 13.5bn in October 2001.

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

	Oct-01	Oct-02
1. Total Advances	248.8	251.2
2. Specific Provisions	29.2	28.7
3. General Provisions	3.0	2.6
4. Total Provisions (2+3)	32.2	31.3
5. Net Advances (1-4)	216.6	219.9
6. Total Non-Performing Loans (NPLs)**	79.5	72.5
7. Net Non-Performing Loans (6-2)	50.3	43.8
8. Value of securities (estimated)	36.8	44.9
9. Net Exposure (7-8)	13.5	-1.1
10. Total NPLs as % of total Loans (6/1)	32.0%	29.9%
11. Total Provisions as % of total loans (4/1)	12.9%	12.6%
12. Exposure as % of total loans (9/1)	5.4%	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 6.7% to Ksh 349.3bn in October 2002 from Ksh 327.3bn in October 2001. In terms of market share, the largest eight commercial banks accounted for 78.5% of all deposits in the banking system.

## Capital and Reserves

Capital and reserves of the banking system decreased by 7.1% to Ksh 54.7bn in October 2002 from Ksh 58.9bn in October 2001. Consequently, the level of capitalisation as measured by the ratio of total capital to total risk-weighted assets ratio decreased to 16.6% at the end of October 2002 from 17.1% at the end of October 2001, but was still above the minimum requirement of 12%.

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

	Oct 2001	Oct 2002	Annual Change*	
			Absolute	%
<b>LIABILITIES</b>	<b>369.2</b>	<b>394.7</b>	<b>25.5</b>	<b>6.9</b>
Deposits**	327.3	349.3	22.0	6.7
Capital and Reserves	58.9	54.7	-4.2	-7.1
Foreign Liabilities	10.1	12.1	2.0	20.0
Other Liabilities	31.8	33.3	1.5	4.7

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

\*\*Includes interbank balances.

Source: Central Bank of Kenya

## Profitability of the Sector

The unaudited pre-tax profits decreased by 25% to Ksh 7.2bn for the ten months ending October 2002 from Ksh 9.0bn for a similar period in 2001. The deterioration in the banking sector profitability was mainly attributed to a decline in interest income.

## Institutions Under Statutory Management

The Delphis Bank, which has been under statutory management re-opened for normal banking business on 5<sup>th</sup> December 2002 after a restructuring process that involved conversion of deposits into equity and fresh capital injections. In essence, the bank is now largely owned by depositors and has converted from a private company to a public institution.

## Building Societies

Assets and deposits of building societies were Ksh 9.7bn and Ksh 7.7bn, respectively, while total advances amounted to Ksh 3.1bn at the end of October 2002. Income stood at Ksh 1.1bn while total expenses stood at Ksh 0.9bn, resulting in a profit before tax of Ksh 0.2bn for the ten months ending October 2002.

## Cash and Liquidity Ratios

Commercial banks and non-bank financial institutions (NBFIs) continued to meet the 20% minimum liquidity and 10% cash ratio requirements in October and November 2002 (Table 13 and Chart 7).

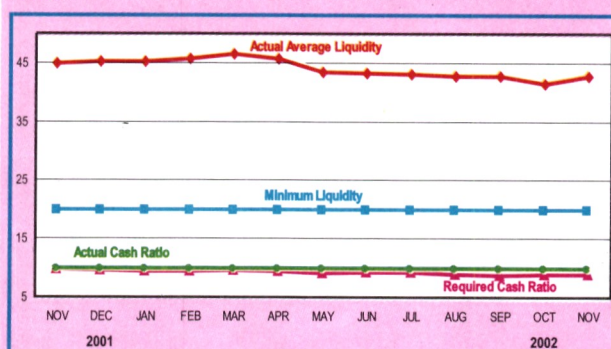
TABLE 13: CASH AND LIQUIDITY RATIOS\* (%)

	2001				2002					
	Jun	Sep	Oct	Dec	Jan	Mar	Jun	Sep	Oct	Nov
<b>Commercial Banks</b>										
Average Liquidity	42	44	45	46	46	47	44	43	42	43
Minimum Liquidity	20	20	20	20	20	20	20	20	20	20
Cash Ratio - All Banks	10.0	9.8	10.1	9.9	9.7	9.8	9.5	9.1	9.2	9.2
Minimum Cash Ratio**	10	10	10	10	10	10	10	10	10	10
<b>NBFIs</b>										
Average Liquidity	60	56	55	57	59	59	59	52	49	53
Minimum Liquidity	20	20	20	20	20	20	20	20	20	20
Cash Ratio	10.1	10.5	10.7	10.9	11.0	10.9	11.6	12.5	12.5	12.9
Minimum Cash Ratio**	10	10	10	10	10	10	10	10	10	10

\* Monthly average liquidity and cash ratios

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

CHART 7



Source: Central Bank of Kenya

## Liquidity Ratios

Commercial banks and NBFIs continued to hold liquid assets largely in form of cash balances at Central Bank and government securities in both Treasury bills and bonds. The average liquidity ratio for commercial banks increased to 43% in November 2002 from 42% in October while that for NBFIs increased to 53% from 49% over the same period.

The average liquidity ratio for mortgage finance companies increased to 31% in November 2002 from 25% in October while that for building societies decreased to 50% from 51% over the same period.

## Cash Ratios

Banking institutions maintained average cash ratio of 11.0% in November 2002 compared with 10.9% in October. The average cash ratio for commercial banks declined to 9.17% in November 2002 from 9.22% in October while the average ratio for NBFIs increased to 12.9% in November 2002 from 12.5% in October 2002.

## September 2002 Banking Sector Financial Statements and Disclosures

Banking institutions and building societies have published their financial results and other disclosures for the period ended September 2002. Table 14 provides a summary of the sector's major performance indicators.

The capitalisation of the sector as measured by the ratio of total capital to total risk weighted assets remained unchanged at 17% as recorded in June 2002. Seven institutions, however, reported core capital that was below the prescribed minimum. The level of NPLs was estimated at Ksh 74.5bn having increased from Ksh 71.6bn as at June 2002. As a result of the increase in the NPLs, their ratio to total loans increased marginally from 29.2% to 29.9% over the period. The banking sector recorded unaudited pre-tax profits of Ksh 6.7bn. While 42 institutions made profits of Ksh 8.3bn, 8 made losses of Ksh 1.6bn.

TABLE 14: SEPTEMBER 2002 BANKING SECTOR INDICATORS

Ksh 'm'

NO.	BANKS	CAPITAL ADEQUACY		ASSET QUALITY			PROFITABILITY		
		TOTAL CAPITAL (TC)	CC/ TRWA (2/3) %	TOTAL LOANS TL	TOTAL NPLs	NPLs/ TL %	PROVISIONS/ TNPLs %	PBT	PBT/ TOTAL ASSETS %
1	Barclays Bank of Kenya Ltd.	9,695,000	15.4	51,403,000	8,888,000	17.3	15.9	1,964,000	2.4
2	Kenya Commercial Bank Ltd.	5,172,931	11.7	36,056,455	20,349,025	56.4	29.6	-1,114,356	-1.9
3	Standard Chartered Bank Ltd.	4,630,974	12.9	15,336,923	1,464,322	9.5	17.1	2,499,698	4.2
4	Citibank, N.A.	4,142,720	16.6	12,278,886	348,997	2.8	63.5	960,700	3.2
5	Co-operative Bank of Kenya Ltd.	3,054,561	8.3	20,529,066	7,289,325	35.5	62.5	125,203	0.5
6	National Industrial Credit Bank Ltd.	2,300,373	43.1	5,054,505	953,774	18.9	62.5	250,378	3.0
7	National Bank of Kenya Ltd.	2,232,996	-14.2	26,620,992	12,930,567	48.6	65.3	112,970	0.4
8	CFC Bank Ltd.	1,864,594	25.2	5,707,293	216,335	3.8	38.0	123,553	1.4
9	Commercial Bank of Africa Ltd.	1,524,426	21.2	5,157,383	457,869	8.9	40.0	301,343	1.7
10	First American Bank Ltd.	1,168,551	29.4	3,507,688	891,514	25.4	43.8	143,693	2.5
11	Investment & Mortgages Bank Ltd.	1,106,597	28.1	3,656,468	529,246	14.5	20.9	83,695	1.2
12	Diamond Trust Bank Kenya Ltd.	982,834	32.1	2,459,580	243,632	9.9	39.4	64,323	1.1
13	Development Bank of Kenya Ltd.	779,364	28.1	1,818,439	718,121	39.5	45.1	49,555	1.6
14	Credit Agricole Indosuez	778,000	18.3	2,770,251	176,277	6.4	100.5	50,880	1.0
15	Transnational Bank Ltd.	734,586	36.7	954,050	374,376	39.2	24.2	143,643	9.0
16	Middle East Bank of Kenya Ltd.	701,498	24.7	1,471,705	436,083	29.6	11.7	36,548	1.0
17	K-Rep Bank Ltd.	692,187	50.3	938,612	24,963	2.7	37.0	53,029	3.6
18	Guardian Bank Ltd.	654,588	27.4	2,507,969	1,196,255	47.7	8.4	56,209	1.4
19	Akiba Bank Ltd.	616,682	16.1	3,088,814	739,206	23.9	29.9	26,494	0.6
20	Stanbic Bank Kenya Ltd.	623,237	15.5	2,637,321	639,040	24.2	38.0	-25,152	-0.3
21	Imperial Bank Ltd.	616,289	19.4	2,959,435	267,776	9.0	70.9	125,770	3.3
22	Consolidated Bank of Kenya Ltd.	571,070	21.8	1,287,825	730,403	56.7	38.7	158,833	5.0
23	Fina Bank Ltd.	544,044	14.7	2,948,672	658,482	22.3	28.7	50,931	1.0
24	Prime Bank Ltd.	499,264	15.9	2,007,374	116,320	5.8	46.2	49,240	1.4
25	Victoria Commercial Bank Ltd.	489,841	38.9	1,420,352	315,387	22.2	28.6	-47,526	-1.5
26	Southern Credit Banking Corp. Ltd.	438,042	22.0	1,774,628	625,103	35.2	39.1	7,618	0.3
27	Giro Commercial Bank Ltd.	429,027	13.8	2,796,351	789,884	28.2	12.6	34,866	0.9
28	Bank of Baroda Ltd.	403,259	26.0	1,414,795	253,809	17.9	15.6	40,053	0.8
29	Biashara Bank of Kenya Ltd.	398,951	28.9	798,732	19,953	2.5	60.5	34,866	13.6
30	City Finance Bank Ltd.	396,323	56.8	493,856	283,728	57.5	11.9	20,014	2.4
31	Equatorial Commercial Bank Ltd.	402,913	28.8	1,046,088	150,716	14.4	38.3	57,398	2.1
32	African Banking Corporation Ltd.	389,415	24.6	1,402,383	185,042	13.2	38.1	32,659	1.1
33	Credit Bank Ltd.	363,934	39.8	724,597	144,821	20.0	11.0	21,542	1.2
34	Charterhouse Bank Ltd.	373,762	27.7	1,172,863	80,656	6.9	46.5	109,254	6.7
35	Habib AG Zurich	350,986	29.5	682,762	60,150	8.8	56.2	74,178	2.3
36	Chase Bank Ltd.	345,491	45.6	764,453	1,679	0.2	48.4	33,112	2.8
37	Bank of India Ltd.	338,651	36.0	915,523	66,226	7.2	33.0	81,475	2.2
38	Industrial Development Bank Ltd.	315,901	17.4	1,665,566	814,419	48.9	39.7	-69,866	-4.0
39	Habib Bank Ltd.	331,767	41.9	837,284	90,257	10.8	78.5	86,706	2.6
40	Dubai Bank Ltd.	311,541	55.0	495,708	49,067	9.9	59.4	25,182	3.5
41	Paramount-Universal Bank Ltd.	272,342	26.8	799,565	301,482	37.7	30.8	5,304	0.4
42	Fidelity Commercial Bank Ltd.	248,885	27.9	771,263	213,078	27.6	45.0	27,566	2.3
43	Euro Bank Ltd.	30,553	1.5	2,248,150	1,043,692	46.4	33.9	-62,593	-3.2
44	Daima Bank Ltd.	28,883	4.9	661,558	474,217	71.7	24.1	-13,547	-1.7
45	Delphis Bank Ltd.	-818,171	-69.7	2,245,281	1,825,670	81.3	62.7	-289,784	-18.6
	<b>SUB-TOTAL</b>	<b>51,529,662</b>	<b>14.1</b>	<b>238,290,464</b>	<b>68,428,944</b>	<b>28.7</b>	<b>39.9</b>	<b>6,499,657</b>	<b>1.5%</b>
	<b>MFCs/NBFI'S</b>								
1	Housing Fin. Co. of Kenya Ltd.	927,876	9.1	9,227,458	5,325,763	57.7	24.8	97,241	0.9
2	Savings and Loan (K) Ltd.	756,431	26.4	2,392,073	660,925	27.6	29.4	20,123	0.5
3	Prime Capital & Credit Ltd.	451,613	36.5	759,424	113,534	15.0	47.5	63,309	3.0
4	Bank of India Finance Ltd.	241,265	315.7	90,440	19,170	21.2	-	32,404	3.7
5	Devna Finance Ltd.	59,510	82.0	23,334	-	-	-	-554	-0.7
	<b>SUB-TOTAL</b>	<b>2,436,695</b>	<b>17.3</b>	<b>12,492,729</b>	<b>6,119,392</b>	<b>49.0</b>	<b>25.7</b>	<b>212,523</b>	<b>1.2</b>
	<b>GRAND TOTAL</b>	<b>53,966,357</b>	<b>31</b>	<b>250,783,193</b>	<b>74,548,336</b>	<b>29.7</b>	<b>38.7</b>	<b>6,712,180</b>	<b>1.5</b>

TRWA = Total risk weighted assets  
MFCs = Mortgage finance companies  
NBFI's = Non-bank financial institutions

NPLs = Non-performing loans  
NPLs = Total non-performing loans  
PBT = Profits before tax

Source: Central Bank of Kenya



## INTEREST RATES

Interest rates maintained their downward trend in the year to December 2002. However, the 91 days Treasury bill and interbank rates increased marginally in November and December 2002 (Table 15 and Chart 8):

- The 91 days Treasury bill rate declined to 8.4% in December 2002 compared with 11.0% in December 2001. The downward trend in the rate is due to excess liquidity in the domestic money market occasioned by limited outlets for investment funds due to the prevailing low economic activity. In addition, the deliberate government policy to reduce the volume of short dated domestic debt in preference for the relatively longer dated Treasury bonds that

began in May 2001 also contributed to the decline in the short-term rate.

- The average rate on three months' deposits with banks declined to 5.6% in November 2002 from 6.8% in November 2001.
- The average savings rate declined to 3.8% in November 2002 from 4.3% in November 2001 while the inter-bank rate declined to 8.7% in December 2002 from 10.4% in December 2001.
- The average interest on bank overdrafts declined to 17.4% in November 2002 from 19.4% in November 2001.

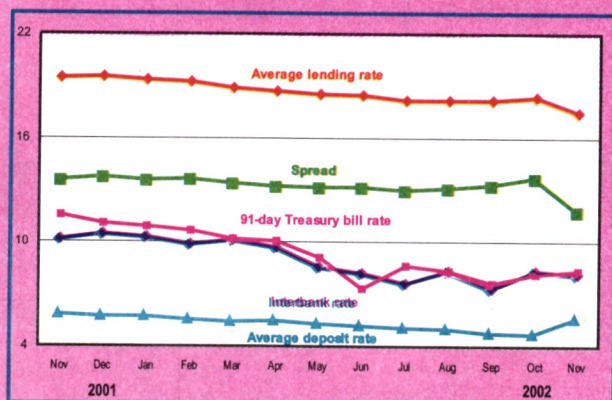
The average interest rate spread narrowed to 12.7% in November 2002 from 13.6% in November 2001, reflecting both the decline in the average deposit rate to 4.7% in November 2002 from 5.9% in November 2001 and the average lending rate from 19.4% to 17.4% over the same period. The general decline in the rates reflected the trend of the 91 day Treasury bill rate.

TABLE 15: INTEREST RATES (% per annum)

	2001				2002						
	Jun	Sep	Nov	Dec	Jan	Mar	Jun	Oct	Nov	Dec	
Treasury bill rate*	12.1	12.4	11.5	11.0	10.9	10.1	7.3	8.1	8.3	8.4	
Overdraft rate	19.7	19.6	19.8	20.0	19.3	18.8	18.5	18.9	17.8		
Interbank rate	10.7	10.7	10.1	10.4	10.3	10.1	8.2	8.3	8.1	8.7	
Average lending rate (1)	19.3	19.4	19.4	19.5	19.3	18.9	18.4	18.3	17.4		
Average deposit rate (2)	6.4	6.3	5.9	5.7	5.7	5.4	5.2	4.7	4.7		
3-month deposit	7.5	7.4	6.8	6.9	6.9	6.9	6.1	5.5	5.6		
Savings rate	4.4	4.9	4.3	4.4	4.4	3.7	4.0	3.8	3.8		
Spread (1-2)	12.9	13.2	13.6	13.8	13.6	13.4	13.2	13.7	12.7		

\*91-Days Treasury bill rate

CHART 8



Source: Central Bank of Kenya

## SHILLING EXCHANGE RATE

The Kenya shilling depreciated against the US dollar, the Sterling Pound and the Euro during the year to November 2002 to exchange at an average of Ksh. 78.7, Ksh. 117.2 and Ksh. 73.5, respectively (Table 16 and Chart 9). The shilling, however, gained against the Japanese Yen and the South African Rand by 4.2% and 22.8%, respectively, to trade at Ksh. 62.7 per 100 Japanese Yen and Ksh. 7.4 per Rand. The shilling also strengthened against the Tanzanian shilling to exchange at Tsh 12.2 compared with Tsh 11.0 in the year to November 2001, and against the Ugandan shilling to exchange at Ush 22.7 in the year to November 2002 compared with Ush 22.4 in the previous year.

In the month of November 2002, the shilling lost against all major international currencies. It lost marginally against the US dollar by 0.3% to trade at an average of Ksh. 79.6 compared with an average of Ksh. 79.3 in October 2002. Similarly, the shilling weakened against the Sterling Pound and the Euro by 1.2% and 2.3%, respectively. Against the Japanese Yen and the South African Rand, the shilling lost by 2.3% and 6.9%, respectively, in November 2002. The shilling, however, gained against the regional currencies. Against the Tanzania shilling, the shilling strengthened by 0.7% to trade at Tsh 12.4 and remained stable against the Uganda shilling to trade at Ush 23.0 in November 2002.

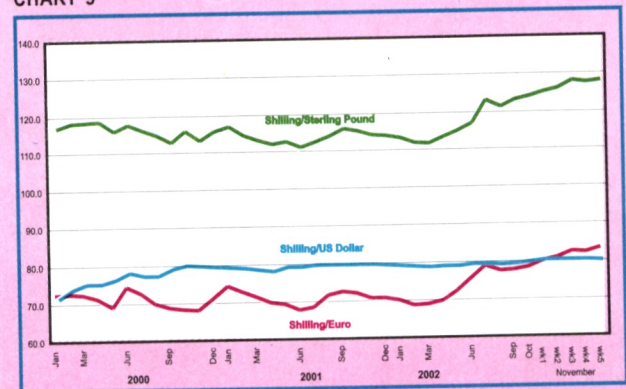
The marginal weakening of the shilling against the US dollar in November 2002 was attributed to

TABLE 16: SHILLING EXCHANGE RATE

	2001			2002			2002							
	Sep	Oct	Dec	Jan	Mar	Jun	Sep	Oct	November					Avg
									wk 1	wk 2	wk 3	wk 4	wk 5	
US Dollar	78.9	79.0	78.7	78.6	78.1	78.7	78.8	79.3	79.7	79.7	79.7	79.5	79.4	79.5
Pound Sterling	115.5	114.7	113.2	112.8	111.1	116.6	122.5	123.6	124.6	125.6	127.5	127.1	127.5	125.1
100 Japanese Yen	66.5	65.1	61.9	59.3	59.5	63.7	65.2	64.1	64.0	64.6	65.8	66.1	66.3	65.1
Uganda Shilling*	22.2	22.1	21.9	22.2	22.7	22.9	22.9	23.0	23.1	23.1	23.1	23.2	23.3	23.2
Tanzania Shilling*	11.3	11.3	11.6	11.8	12.4	12.2	12.4	12.4	12.3	12.3	12.3	12.3	12.2	12.3
Euro	71.9	71.6	70.2	69.3	68.5	75.1	77.3	77.9	79.5	80.4	81.9	81.7	82.9	81.0
Nominal Effective Exchange Rate	79.4	79.6	80.4	81.1	82.1	80.5	81.2	77.9						
Real Effective Exchange Rate	95.2	95.1	95.9	94.4	95.3	95.1	94.5	93.0						

\* Units of currency per Kenya shilling

CHART 9

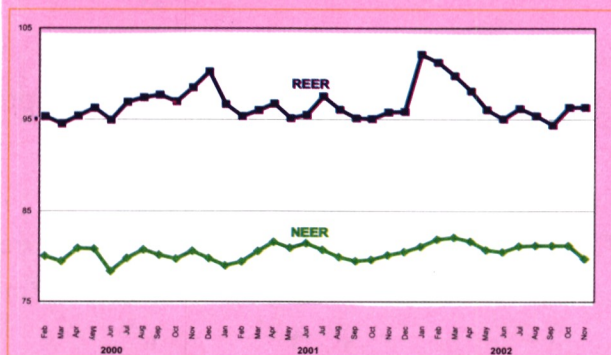


Source: Central Bank of Kenya

increased demand for foreign exchange particularly from the corporate sector. The performance of the shilling against the other major international currencies in November 2002 reflected the strengthening of these currencies against the US dollar in the international currency market.

In nominal effective terms, that is trade-weighted against major partner currencies, the shilling depreciated by 0.5% in the year to November 2002 compared with an appreciation of 0.6% in a similar period to November 2001 (Chart 10).

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



Source: Central Bank of Kenya

In real terms, however, the shilling appreciated by 0.3% in the year to November 2002 compared with 0.6% depreciation in the year to November 2001. The appreciation in the real effective shilling exchange rate reflected higher domestic inflation relative to inflation in the trading partner currencies.

## BUDGETARY DEVELOPMENTS

Government fiscal operations during the first four months of fiscal year 2002/03, resulted in a deficit, on a commitment basis, of Ksh 14.9bn or 1.5% of GDP compared with a deficit of Ksh 4.6bn or 0.5% of GDP in a similar period in the previous fiscal year (Table 17 and Chart 11). On a cash basis, however, the Government budget recorded a deficit of Ksh 12.5bn, compared with a deficit of Ksh 12.7bn in a similar period in fiscal year 2001/02.

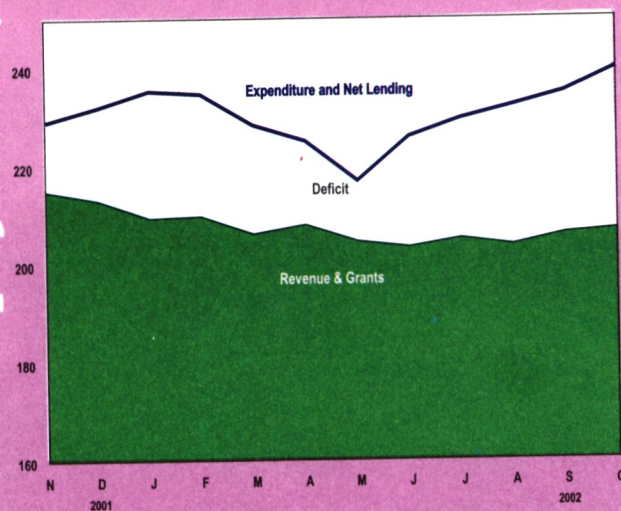
TABLE 17: BUDGET OUT-TURN (Ksh bn)

	FY 2001/02		FY 2002/03		Over(+)/ Below (-)
	October Actual	October Actual*	October Actual*	Target	
1. TOTAL REVENUE & GRANTS	61.0	64.4	53.1	-13.9	
Revenue	58.8	61.4	50.5	-11.6	
Tax Revenue	49.9	53.3	43.0	-9.1	
Non Tax Revenue	3.8	4.0	3.3	-1.0	
Appropriations-in-Aid	5.2	4.1	4.2	-1.6	
External Grants	2.3	3.0	2.6	-2.3	
2. TOTAL EXPENDITURE AND NET LENDING	65.7	79.3	64.4	-9.6	
Recurrent Expenditure	59.5	69.7	54.0	-3.1	
Development Expenditure	6.1	9.6	10.4	-6.4	
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-4.6	-14.9	-11.3	-4.4	
	(-0.5)	(-1.5)	(-1.2)		
4. ADJUSTMENT TO CASH BASIS	-8.1	2.5	-1.2	2.5	
5. DEFICIT ON A CASH BASIS	-12.7	-12.5	-12.5	-1.9	
	(-1.4)	(-1.3)	(-1.3)		
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-0.4	-2.1	0.0	-2.1	
7. FINANCING	12.3	10.4	12.5	-0.2	
Domestic (Net)	16.5	14.0	14.9	2.0	
External (Net)	-4.2	-3.6	-2.4	-2.2	
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 four months of the fiscal year 2002/03, the Government collected receipts amounting to Ksh 64.4bn compared with Ksh 61.0bn in a similar period in fiscal year 2001/02 (Table 18). Of the total revenue collected, taxes amounted to Ksh 53.3bn or 82.9% of total revenue and comprised the following:

- Income tax collections amounting to Ksh 18.4bn or 34.5% of total tax revenue, compared with Ksh 16.8bn in the previous year.
- Value Added Tax (VAT) receipts rose to Ksh 18.6bn from Ksh 16.4bn collected in the previous year, accounting for 34.9% of total tax collections.
- Import and excise duty receipts amounted to Ksh 16.4bn, down from Ksh 16.7bn in a similar period last fiscal year.

TABLE 18: COMPOSITION OF GOVERNMENT REVENUE (Ksh bn)

	Oct-01	Share	Oct-02	Share
	Ksh bn	%	Ksh bn	%
1. Revenue (2+3+4)	58.8	96.3	61.4	95.4
2. Tax Revenue	49.9	81.7	53.3	82.9
Income Tax	16.8	27.5	18.4	28.6
Value Added Tax	16.4	26.9	18.6	28.9
Import Duty	7.7	12.6	6.0	9.3
Excise Duty	9.0	14.7	10.4	16.1
3. Appropriations-in-Aid	5.2	8.4	4.1	6.3
4. Other Revenue	3.8	6.2	4.0	6.1
5. External Grants	2.3	3.7	3.0	4.6
TOTAL RECEIPTS (1+5)	61.0	100.0	64.4	100.0

Source: Treasury

Other government receipts were as follows:

- Non-tax revenue amounted to Ksh 4.0bn compared with Ksh 3.8bn in a similar period last year.

- User charges, fees and other levies amounted to Ksh 4.1bn, down from Ksh 5.2bn collected in a similar period in the last financial year.
- External grants amounted to Ksh 3.0bn, Ksh 0.7bn higher than the amount received in a similar period last year.
- Development expenditure was Ksh 9.6bn or 12.1% of the total government expenditure, up from 9.4% in the previous year.

## Expenditure and Net Lending

Government expenditure during the first four months of fiscal year 2002/03 amounted to Ksh 79.3bn, Ksh 13.6bn higher than in the same period in the previous fiscal year (Table 19). The components of expenditure were as follows:

- Recurrent expenditure amounted to Ksh 69.7bn or 87.9% of total government expenditure, compared with Ksh 59.5bn or 90.6% in the same period last fiscal year. Major items of recurrent expenditure were as follows:
  - ◆ Interest payments amounted to Ksh 13.6bn compared with Ksh 10.9bn in a similar period in the previous year. Of this, interest on domestic debt was Ksh 9.6bn, while interest on foreign debt accounted for Ksh 3.9bn.
  - ◆ Expenditure on salaries and wages stood at Ksh 26.7bn compared with Ksh 25.3bn in the previous year.
  - ◆ Other expenditures were Ksh 29.4bn, comprising mainly expenditures on operations and maintenance. This was Ksh 6.1bn higher than in a similar period of the previous year.

TABLE 19: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh bn)

	Oct-01 Ksh bn	Share %	Oct-02 Ksh bn	Share %
Salaries & Wages	25.3	38.6	26.7	33.7
Total Interest	10.9	16.5	13.6	17.1
Domestic*	7.8	11.9	9.6	12.2
Foreign	3.0	4.6	3.9	5.0
Development	6.1	9.4	9.6	12.1
Others	23.4	35.6	29.4	37.1
<b>TOTAL EXPENDITURE</b>	<b>65.7</b>	<b>100.0</b>	<b>79.3</b>	<b>100.0</b>

\*Includes commission and other charges paid to CBK

Source: Treasury

## Financing

The budgetary developments in the first four months of the fiscal year resulted in a financing requirement of Ksh 16.2bn. This was Ksh 10.0bn lower than the financing requirement in a similar period in fiscal year 2001/02 (Table 20). The financing sources comprised the following:

- Ksh 0.9bn from the Central Bank;
- Ksh 9.7bn from the commercial banks; and
- Ksh 5.6bn from non-bank sources.

The funds were used to make a net repayment of Ksh 3.6bn to external creditors, increase government deposits at the Central Bank by Ksh 2.2bn, and finance the budget deficit of Ksh 10.4bn.

**TABLE 20: GOVERNMENT FINANCING REQUIREMENTS & SOURCES (Ksh bn)**

I. FINANCING REQUIREMENTS	Oct-01	Share	Oct-02	Share
	Ksh bn	%	Ksh bn	%
1. Budget deficit	12.3	47.1	10.4	64.2
2. External debt reduction	4.2	15.9	3.6	22.2
3. Domestic debt reduction	9.7	37.0	0.0	0.0
3.1 Central Bank (incl. items in transit)	9.7	37.0	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0	0.0	0.0
3.3 Non-bank sources	0.0	0.0	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0	2.2	13.6
<b>TOTAL</b>	<b>26.2</b>	<b>100.0</b>	<b>16.2</b>	<b>100.0</b>

II. FINANCING SOURCES	Oct-01	Share	Oct-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	25.6	97.8	16.2	100.0
3.1 Central Bank	0.0	0.0	0.9	5.8
3.2 Commercial banks	25.2	96.2	9.7	59.7
3.3 Non-bank sources	0.4	1.6	5.6	34.5
4. Reduction in GoK deposits at CBK	0.6	2.2	0.0	0.0
5. Privatisation proceeds	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>26.2</b>	<b>100.0</b>	<b>16.2</b>	<b>100.0</b>

Sources: Treasury & Central Bank of Kenya

## Government Borrowing from the Central Bank

During the first five months of fiscal year 2002/03, the Government made a net repayment to the Central Bank of Ksh 4.3bn compared with Ksh 9.4bn in a similar period in the previous fiscal year (Table 21). Consequently, government indebtedness to the Bank decreased from Ksh 44.9bn in June 2002 to Ksh 40.7bn as at the end of November 2002.

The Ksh 4.3bn decrease in Central Bank credit to the Government reflected the following transactions:

- A decrease of Ksh 5.2bn in cleared items awaiting debiting to the Paymaster General account;
- A decrease of Ksh 0.2bn in the Central Bank's holdings of rediscounted securities; and
- An increase of Ksh 1.1bn in the use of the overdraft facility at the Bank by the Government.

**TABLE 21: GOVERNMENT GROSS BORROWING FROM THE CENTRAL BANK (Ksh bn)**

	Jun-02	Oct-02	Nov-02	Movement
<b>Total Government Credit (1+2+3+4+5)</b>	<b>44.9</b>	<b>45.9</b>	<b>40.7</b>	<b>-4.3</b>
1. Overdraft	0.0	5.9	1.1	1.1
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	1.0	0.5	-5.2
<b>Memorandum</b>				
Authorised overdraft limit	8.8	8.8	8.8	0.0
Amount utilised to date	0.0	5.9	1.1	1.1
Amount available	8.8	2.9	7.6	-1.1

Source: Central Bank of Kenya

Source: Central Bank of Kenya

## PUBLIC DEBT

### Overall Debt

Government public debt stood at Ksh 624.1bn as at end October 2002. This represented 63.4% of GDP and was Ksh 10.4bn higher than in June 2002 (Table 22). Of this total public debt, domestic debt was Ksh 251.2bn or 25.5% of GDP while foreign debt amounted to Ksh 372.9bn, representing 37.9% of GDP.

TABLE 22: KENYA'S PUBLIC DEBT (Ksh bn)

	Jun-01**	Jun-02**	Oct-02**	Change 2002/03
<b>EXTERNAL***</b>				
Bilateral	132.3	130.0	127.8	-2.1
Multilateral	228.5	222.5	220.1	-2.4
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>372.9</b>	<b>-4.8</b>
(As a % of GDP)	46.6	41.0	37.9	-3.2
<b>DOMESTIC</b>				
<b>Banks</b>	<b>109.2</b>	<b>120.8</b>	<b>130.6</b>	<b>9.7</b>
Central Bank	47.2	42.8	43.8	0.9
Commercial Banks	62.0	78.0	86.8	8.8
<b>Non-banks</b>	<b>93.4</b>	<b>104.4</b>	<b>111.4</b>	<b>7.1</b>
Non-bank Financial Inst.	3.9	2.8	3.2	0.3
Other Non-bank Sources	89.6	101.5	108.3	6.7
<b>Non-residents</b>	<b>9.2</b>	<b>10.8</b>	<b>9.2</b>	<b>-1.6</b>
<b>Sub-Total</b>	<b>211.8</b>	<b>236.0</b>	<b>251.2</b>	<b>15.2</b>
(As a % of GDP)	25.0	25.6	25.5	-0.1
<b>GRAND TOTAL</b>	<b>605.8</b>	<b>613.8</b>	<b>624.1</b>	<b>10.4</b>
(As a % of GDP)	71.6	66.7	63.4	-3.3

\* 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

- An increase of Ksh 23.4bn in government securities; and
- A decrease of Ksh 4.2bn in other government accounts.

TABLE 23: GOVERNMENT DOMESTIC DEBT (Ksh bn)

	2001		2002				
	Oct	Dec	Jan	Jun	Sep	Oct	Nov
<b>Total stock of Domestic Debt (A+B)</b>	<b>226.0</b>	<b>222.0</b>	<b>222.7</b>	<b>236.0</b>	<b>250.8</b>	<b>251.2</b>	<b>255.2</b>
<b>A. Government Securities</b>	<b>223.2</b>	<b>215.5</b>	<b>219.5</b>	<b>226.8</b>	<b>241.2</b>	<b>241.2</b>	<b>250.1</b>
1. Treasury Bills (excluding Repo Bills)	113.8	96.8	93.1	82.1	86.6	83.3	84.6
Banking institutions	58.5	45.3	38.4	30.5	34.0	32.5	35.2
Others	55.3	51.5	54.7	51.5	52.6	50.8	49.5
2. Treasury Bonds	71.0	80.3	88.0	106.3	116.2	119.5	127.1
Banking institutions	28.4	32.8	37.7	47.1	51.4	51.2	56.8
Others	42.6	47.5	50.3	59.2	64.8	68.3	70.3
3. Long term Stocks	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.5	1.5	1.5	1.5	1.5	1.5	1.5
4. Non-interest bearing debt	36.9	36.9	36.9	36.9	36.9	36.9	36.9
Of which: Repo TBills	24.0	27.0	27.0	36.0	33.0	33.0	30.0
<b>B. Others</b>	<b>2.7</b>	<b>6.5</b>	<b>3.2</b>	<b>9.2</b>	<b>9.6</b>	<b>10.0</b>	<b>5.0</b>
Of which CBK overdraft to Government	0.0	0.0	0.0	0.0	3.0	5.9	1.1

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

TABLE 24: ANALYSIS OF DOMESTIC DEBT (Ksh bn)

	Jun-02	Oct-02	Nov-02	Change
<b>Government securities</b>	<b>226.8</b>	<b>241.2</b>	<b>250.2</b>	<b>23.4</b>
Treasury Bills*	82.1	83.3	84.7	2.6
Treasury Bonds	106.3	119.5	127.1	20.8
Of which: special bonds	6.4	5.2	7.3	0.9
Government Stock	1.5	1.5	1.5	0.0
<b>Non-interest bearing debt</b>	<b>36.9</b>	<b>36.9</b>	<b>36.9</b>	<b>0.0</b>
<b>Others**</b>	<b>9.2</b>	<b>10.0</b>	<b>5.0</b>	<b>-4.2</b>
Of which: Overdraft at the Central Bank	0.0	5.9	1.1	1.1
<b>Total Stock of Domestic Debt</b>	<b>236.0</b>	<b>251.2</b>	<b>255.2</b>	<b>19.2</b>

\* Excludes REPO Treasury bills

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

Source: Central Bank of Kenya

### Domestic Debt

The stock of domestic debt stood at Ksh 255.2bn at the end of November 2002. This represents an increase of Ksh 19.2bn over the first five months of the fiscal year 2002/03 (Tables 23 and 24). The net increase of Ksh 19.2bn in the stock of debt is explained by the following developments, which occurred between June 2002 and November 2002:

### Treasury Bills

The outstanding stock of Treasury bills increased from Ksh 82.1bn in June 2002 to Ksh 84.7bn in November 2002 (Table 25 and Chart 12). The stock of bills was distributed among investors as follows:

- Banking institutions held 41.6% of the total.
- The non-bank sector comprising insurance companies, parastatals, individuals and

other corporate entities held the remaining 58.4%.

## Treasury Bonds

The outstanding stock of Treasury bonds increased from Ksh 106.3bn in June 2002 to Ksh 127.1bn in November 2002. The increase of Ksh 20.8bn in the stock of bonds during the review period reflected new bond issues amounting to Ksh 33.2bn and redemptions of Ksh 12.4bn.

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

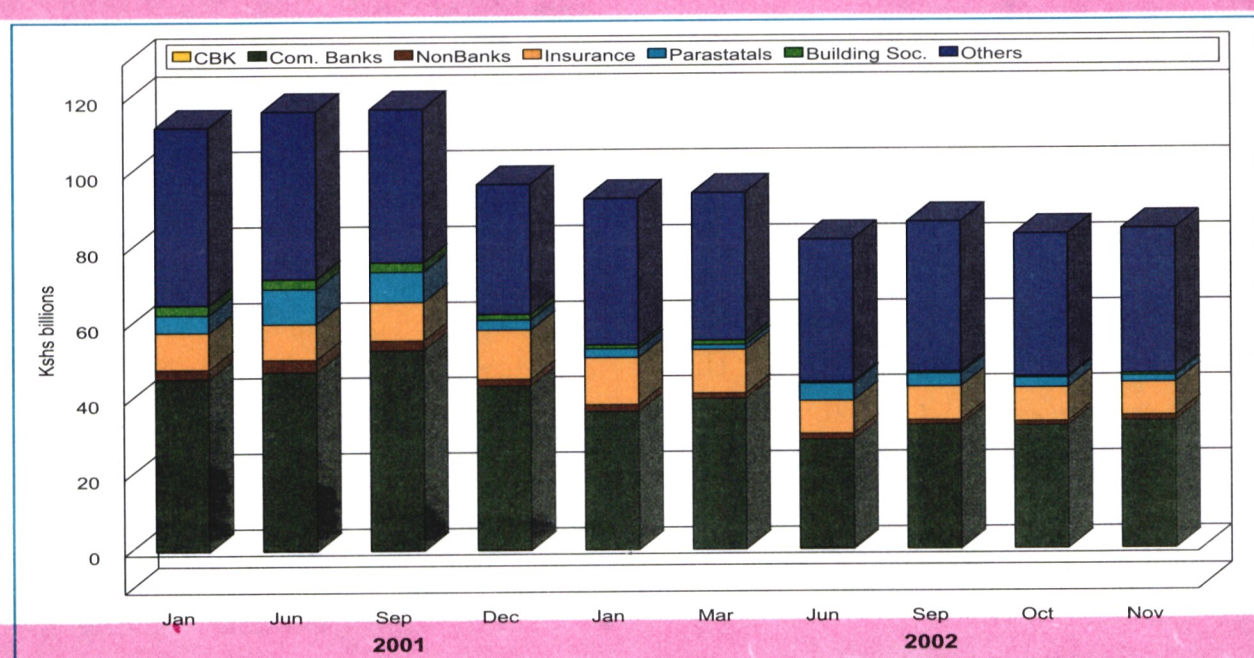
- Commercial banks and non-bank financial institutions held bonds worth Ksh 54.8bn and Ksh 2.0bn, respectively.
- Other investors, mainly individuals and corporations, held bonds worth Ksh 70.3bn.

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

Holders	2001						2002					
	Sep	%	Dec	%	Jun	%	Sep	%	Oct	%	Nov	%
Banking Institutions	55.7	47.7	45.3	46.8	30.5	37.2	34.0	39.3	33.6	40.4	35.2	41.6
Central Bank	0.0	0.0	0.2	0.2	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	53.1	45.4	43.3	44.7	28.7	35.0	32.8	37.9	32.5	39.0	33.7	39.8
NBFIs	2.6	2.2	1.8	1.8	1.5	1.9	1.2	1.3	1.1	1.4	1.4	1.7
Insurance Companies	10.2	8.7	13.1	13.5	8.7	10.6	8.9	10.2	8.9	10.7	8.7	10.3
Parastatals	8.0	6.8	2.7	2.7	4.6	5.6	3.4	4.0	2.6	3.1	1.8	2.1
Of which: NSSF	0.2	0.2	0.5	0.5	1.1	1.4	1.1	1.3	1.1	1.4	1.4	1.6
Building Societies	2.5	2.2	1.5	1.6	0.4	0.5	0.5	0.6	0.4	0.5	0.6	0.7
Others	40.5	34.7	34.3	35.4	37.8	46.1	39.8	45.9	37.8	45.4	38.4	45.4
<b>Total*</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>83.3</b>	<b>100.0</b>	<b>84.7</b>	<b>100.0</b>

\* Excludes repurchase order bills

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



Source: Central Bank of Kenya



## Government Long Term Stocks

There were no new transactions affecting long term stocks between June and November 2002 and, consequently, outstanding long-term government stocks remained unchanged at the Ksh 1.5bn level in June 2002. The National Social Security Fund, held Ksh 0.8bn of this, while the balance was held by the non-bank sector.

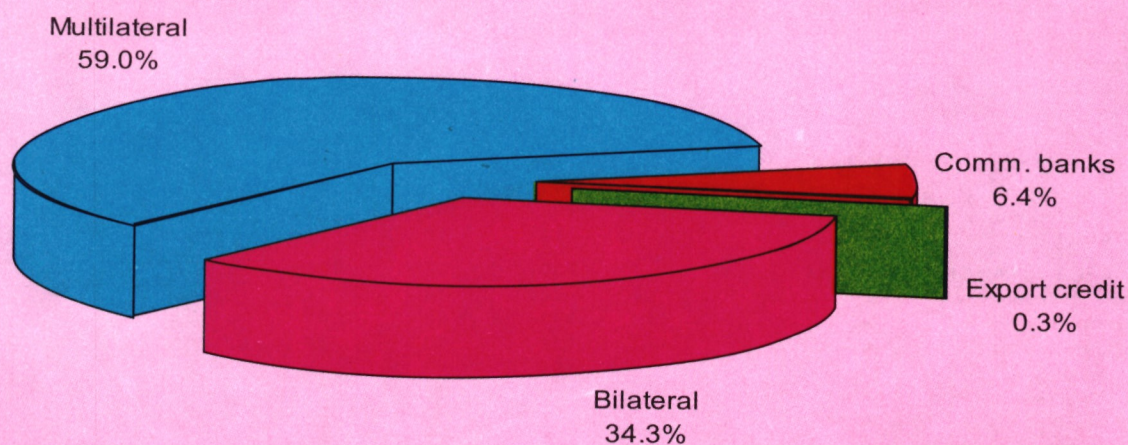
## External Debt

Kenya's external debt decreased in the first four months of the 2002/03 fiscal year from Ksh 377.7bn as at end June 2002 to Ksh 372.9bn in October 2002. As a proportion of GDP, external debt declined to 37.9% in October 2002 from 41.0% in June 2002. The Ksh 4.8bn net decrease in external debt reflected:

- A repayment of Ksh 7.5bn to external creditors, comprising Ksh 6.5bn for Central Government debt, and Ksh 1.0bn for Government guaranteed debt.
- Disbursements amounting to Ksh 2.9bn.
- A revaluation gain of Ksh 0.2bn arising from the appreciation of the Kenya shilling.

Multilateral debt accounted for 59.0% of the total external debt while bilateral creditors accounted for 34.3% of the total stock (Chart 13). Commercial loans and export credit accounted for 6.4% and 0.3% of the total debt stock, respectively.

CHART 13: EXTERNAL DEBT DISTRIBUTION



Source: Treasury

## BALANCE OF PAYMENTS

The overall balance of payments was a surplus of US\$ 112m in the year to October 2002 compared with a surplus of US\$ 29m in the year to October 2001. The improvement during the period was attributed to a lower current account deficit and increased capital and financial account surplus (Table 26 and Chart 14).

## Current Account

The current account deficit narrowed to US\$ 269m in the year to October 2002 from US\$ 327m in a similar period of the previous year. The improvement in the current account was attributed to a reduction in the trade deficit by 35.4%, which more than offset the 39.9% decline in the services account surplus. The decline in transfers inflows and decrease in net non-factor service receipts contributed to the reduction in the services surplus.

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

	Quarters in Year to October 2002					Year to Oct** 2002**
	Year to Oct 2001	Q1 Oct-Dec 2001	Q2 Jan-Mar 2001	Q3 Apr-Jun 2002	Q4 Aug-Oct** 2002	
	<b>OVERALL BALANCE</b>	29	0	66	49	
<b>I. CURRENT ACCOUNT</b>	-327	-98	-39	36	-169	-269
<b>Merchandise</b>	-1600	-268	-195	-203	-367	-1034
Exports (fob)	1896	472	524	623	444	2062
Coffee	103	13	26	28	18	85
Tea	453	103	115	116	84	419
Horticulture	242	69	74	57	79	279
Oil products	168	35	14	15	30	95
Other	930	252	293	406	233	1184
Imports (cif)	3497	740	719	826	811	3097
Oil	798	123	155	163	198	639
Chemicals	468	128	116	135	134	514
Manufactured goods	435	93	94	107	95	389
Machinery & transport equipment	837	196	201	236	145	778
Other	958	200	153	185	239	776
<b>Services</b>	1273	170	157	239	199	765
Non-factor services (net)	551	87	97	144	141	470
Of which: tourism receipts	303	68	68	63	82	281
Income (net)	-123	-43	-28	-23	-25	-118
Of which: official interest income	-114	-29	-27	-21	-25	-103
Current Transfers	845	125	87	118	83	413
Private (net)	732	105	70	101	66	342
Public (net)	114	20	17	17	17	71
<b>II. CAPITAL &amp; FINANCIAL ACCOUNT</b>	356	98	105	13	166	381
<b>Capital Transfers (net)</b>	62	18	19	16	19	72
<b>Financial Account</b>	293	80	86	-3	147	309
Official, medium- & long-term	-314	-13	-12	27	-35	-33
Inflows	194	43	69	58	48	217
Outflows	-508	-56	-81	-31	-83	-250
Private, medium- & long-term (net)	104	27	-63	-31	39	-28
Commercial banks (net)	20	17	-41	-51	40	-34
Other private, medium- & long-term (net)	84	11	-23	20	-1	6
Short term and errors & omissions (net)	503	49	110	-49	92	202
<b>Gross Reserves</b>	1431	1442	1510	1588	1534	1534
Official	1021	1035	1087	1112	1096	1096
in months of goods and non-factor services	3.0	3.2	3.5	3.5	3.5	3.5
Commercial Banks	410	406	423	476	438	438

\* Revised to reflect the new BOP presentation format

\*\* Provisional

Source: Central Bank of Kenya

## Merchandise

The trade deficit narrowed to US\$ 1,034m in the year to October 2002 from US\$ 1,600m in the year to October 2001 mainly due to decline in imports by US\$ 400m and a growth of US\$ 166m in export earnings. All categories of imports, except chemicals, fell. The increase in export earnings was attributed to a rise in receipts

of horticultural and non-traditional exports. Receipts of traditional exports, particularly tea and coffee, however, declined following reduced export volumes and prices.

## Services

The surplus in the services account declined to US\$ 765m from US\$ 1,273m in the year to

CHART 14: TRENDS IN PRICES & VOLUMES OF MAJOR EXPORTS



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

October 2001. The decline in the services account surplus arose from a reduction in grant inflows to both the private and public sectors by US\$ 432m and a decrease in net non-factor service receipts by US\$ 81m. Net income payments, however, declined.

### Capital and Financial Account

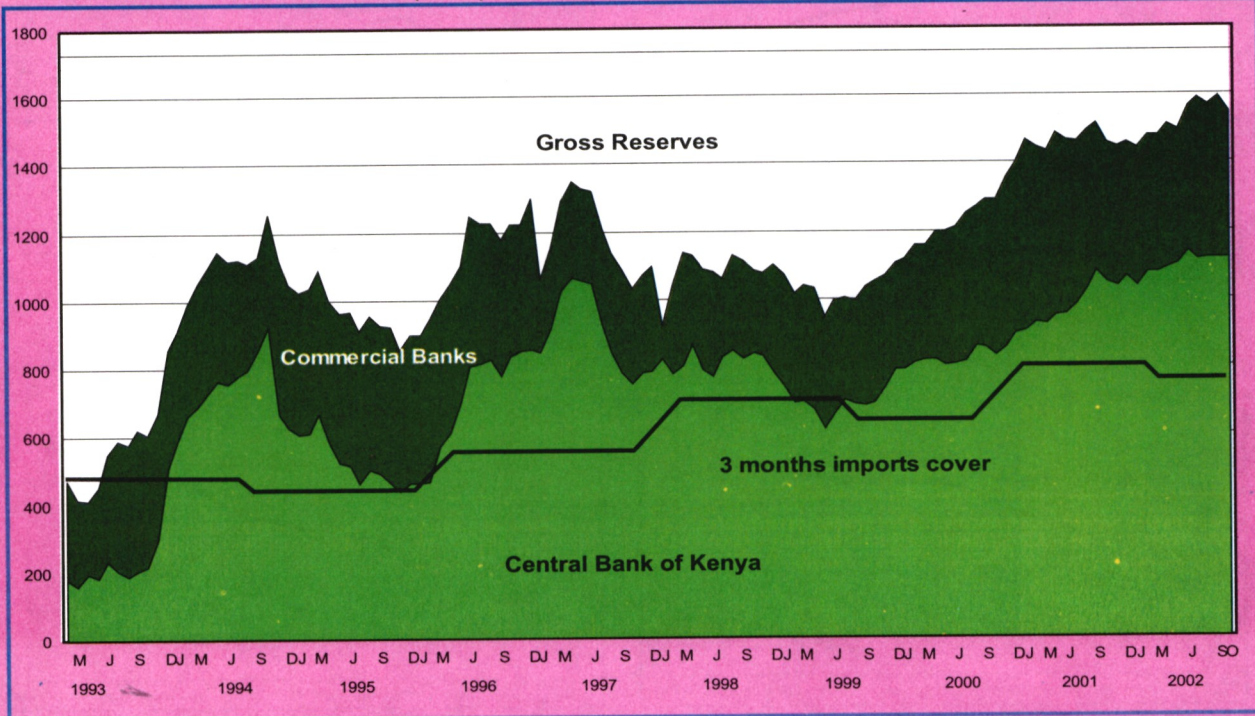
The capital and financial account surplus improved to US\$ 381m in the year to October 2002 from US\$ 356m in a similar period of the previous year. This was mainly due to a decline in official outflows from US\$ 508m to US\$ 250m and an increase in net capital transfer receipts by US\$ 10m. Net private medium and long-term capital flows, however, declined to a net outflow of US\$ 28m in the year to October 2002 compared with a net inflow of US\$ 104m in the previous year. Short-term capital inflows

(including errors and omissions) also declined to US\$ 202m from US\$ 503m in the year to October 2001.

### Foreign Exchange Reserves

Following the improvement in the overall balance of payments, official foreign exchange reserves increased to US\$ 1,096m, equivalent to 3.5 months of imports of goods and non-factor services at end of October 2002 compared with US\$ 1,021m or 3.0 months of imports cover in October 2001 (Chart 15). Foreign exchange reserves of commercial banks also increased from US\$ 410m at end of October 2001 to US\$ 438m at the end of October 2002. Foreign exchange reserves held by the banking system therefore stood at US\$ 1,534m at the end of October 2002 compared with US\$ 1,431m at end of October 2001.

CHART 15: FOREIGN EXCHANGE RESERVES (US\$ m)



Source: Central Bank of Kenya

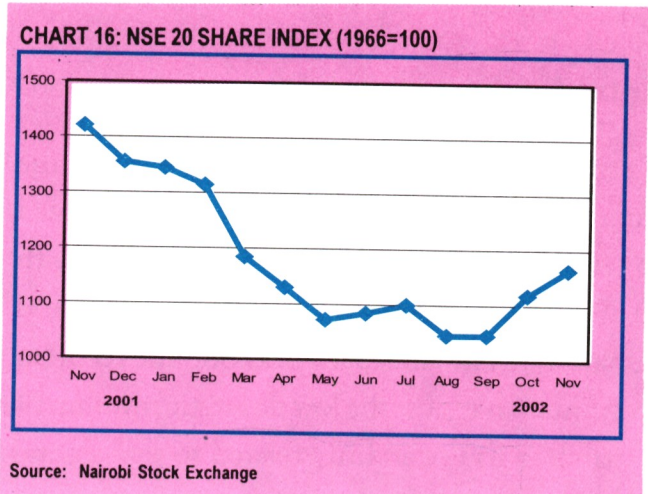
## STOCK MARKET

Trading at the Nairobi Stock Exchange improved in November 2002 compared with October 2002 with all the market counters posting increases in turnover.

### Equities Market

Trading at the equities market improved its performance in November 2002 from October 2002 as reflected in the following market indicators:

- The NSE share index increased to close at 1161.63 in November 2002 from 1116.36 in October 2002 (Chart 16).
- Market capitalisation increased by Ksh 5.3bn or 5.9% to Ksh 96.5bn in November 2002 from Ksh 91.2bn in October 2002.
- The turnover ratio, defined as the proportion of the value of shares traded to market capitalisation, increased to 0.4% in November 2002 from 0.2% in October 2002.
- The value of shares traded increased by 84.6% to Ksh 381.5m in November 2002 while the number of transactions increased by 28.4% to 2,579 in November 2002 from 2,008 in October. Consequently, the average value per transaction increased by 43.8% to Ksh 147,963.29, in November.



### Foreign Investors Board

Trading at the counter resumed in November and resulted in turnover of Ksh 37m. Total foreign inflows amounted to Ksh 36.7bn while outflows amounted to Ksh 0.48m.

### The Bond Market

Turnover at the secondary market for bonds increased by Ksh 1.4bn or 54.74% to Ksh 4.0bn in November 2002 compared with Ksh 2.6bn in October 2002. This improved turnover largely reflected Ksh 1.9bn or 45.2% increase in secondary trading of government securities to Ksh 3.8bn in November 2002 from Ksh 2.6bn in October. The average yield on bonds decreased to 11.02% in November 2002 from 11.39% in October 2002, reflecting the lower yield realised on the special bonds.

## REAL SECTOR

### Introduction

Leading economic indicators for the first nine months of 2002 indicate that real GDP expanded by an annualised growth of 0.7% compared with 0.8% in the same period of 2001 (Table 27 and Chart 17). The slow pace of economic recovery continues to reflect the low domestic investment attributed to uncertainty related to the general elections. The relatively inefficient infrastructure

CHART 17: REAL GDP GROWTH RATES, 1996 - SEPTEMBER 2002

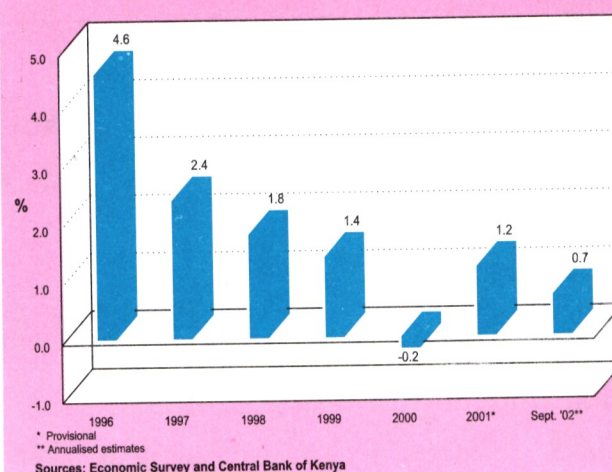


TABLE 27: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP in 2001 (%)	Annualised Estimates	
		Sept. 2001/ <sup>1</sup>	Sept. 2002/ <sup>2</sup>
Agriculture	24.1	25,050	25,219
Manufacturing	13.0	13,573	13,652
Trade, Tourism & Hotels	12.7	13,200	13,242
Financial Services	10.6	11,000	11,082
Building & Construction	2.4	2,450	2,445
Transport & Communications	6.2	6,360	6,488
Government	14.7	15,240	15,315
Others of which	16.3	17,149	17,264
<i>Non-monetary Sector</i>	5.7	5,990	6,011
<i>Domestic Services</i>	2.9	3,053	3,072
<i>Ownership of Dwellings</i>	5.7	6,000	6,071
<i>Other</i>	2.0	2,106	2,110
<b>Est. Real GDP (1982 Prices)</b>	<b>100.0</b>	<b>104,023</b>	<b>104,707</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		0.8	0.7
Manufacturing		0.5	0.6
Trade, Tourism & Hotels		0.8	0.3
Financial Services		0.8	0.7
Building & Construction		-0.5	-0.2
Transport & Communications		2.8	2.0
Government		0.6	0.5
Others		0.8	0.7
<i>Non-monetary Sector</i>		0.5	0.4
<i>Domestic Services</i>		0.8	0.6
<i>Ownership of Dwellings</i>		0.8	1.2
<i>Other</i>		-1.0	0.2
<b>Est. Real GDP Growth</b>		<b>0.8</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

particularly roads, telecommunications and power supply also contributed to the slow economic recovery.

## Agriculture

Major cash crops performed as follows in the first nine months of 2002:

- Sugar cane output increased by 36.9% compared with a decline of 20.0% in the same period in 2001. Exports of horticultural produce increased by 10.9% compared with an increase of 3.3% in a similar period of 2001. The increase in output in these sub-sectors is attributed to the favourable weather conditions in sugar cane and horticulture growing areas and access to new markets for horticultural produce.
- Output of tea, pyrethrum and sisal declined by 5.8%, 15.9% and 3.4% respectively in the first nine months of 2002 compared with 35.2%, 70.0% and 3.2% increases in the same period in 2001.
- Coffee production declined by 22.7% in the first nine months of 2002 compared with a decline of 38.2% in the first nine months of 2001. The continued decline in coffee production over the last two years is attributed to the low international price of the commodity in recent years and management problems in the cooperative societies. The on-going reforms in the sector are, however, expected to reverse the trend.

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

Crop	Jan - Sept		
	2000	2001	2002
Tea	-5.0	35.2	-5.8
Horticulture	0.2	3.3	10.9
Coffee	52.4	-38.2	-22.7
Sugar cane	-10.7	-20.6	36.9
Pyrethrum	-5.0	70.0	-15.9
Sisal	-2.3	3.2	-3.4

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

## Manufacturing

Key indicators in the manufacturing sector evolved as follows:

- The consumption of electricity, a major input in the sector, increased by 3.2% compared with a decline of 4.3% in a similar period of 2001.
- Exports of manufactures increased by 8.1% during the first half of 2002 compared with an increase of 6.9% in the same period of 2001. The improved performance was mainly as a result of increased access to external markets in the East African Community (EAC) and COMESA. In addition, the African Growth and Opportunities Act (AGOA) provided access to the United States market. For instance exports of textiles and fabrics increased by 196% in the first half of 2002 mainly due to this opening.
- Imported inputs for the sector, namely chemicals and related products increased by 8.2% in the first half of 2002 compared with an increase of 11.3% in a similar period of 2001.

The performance of selected manufactured items is shown in Table 29.

**TABLE 29: PRODUCTION OF SELECTED MANUFACTURES (%)**

Item	Jan - Sept.	
	2001	2002
Galvanised sheets (MT)	6.2	11.0
Mineral water ('000 litres)	4.6	10.4
Soda ash (MT)	23.1	4.5
Cement (MT)	-6.1	15.2
Assembled vehicles (units)	-13.8	-20.2
Processed Sugar (MT)	-21.8	39.4

Source: Central Bureau of Statistics and Kenya Sugar Authority

### Building and Construction

The consumption of cement, the main input in the sector, increased by 15.4% in the first nine months of 2002 compared with 2.1% increase in a similar period of 2001. The increase was largely in private sector building and construction projects as public sector building and construction works experienced a slow down due to government budgetary constraints.

### Transport, Storage and Communications

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

- Cargo handled through the Port of Mombasa increased by 0.3% compared with a growth of 22.7% in the first nine months of 2001.
- Kenya Pipeline Company (KPC) throughput declined by 3.1% compared with an increase of 3.8% in a similar period of 2001.

- Passengers through Jomo Kenyatta International Airport (JKIA) increased by 5.9% compared with an increase of 17.6% in the first nine months of 2001.
- Cargo carried by the Kenya Railways Corporation (KRC) increased by 2.6% during the first nine months of 2002 compared with a decline of 7.0% in a similar period of 2001.
- Consumption of petroleum products increased by 4.5% in the first nine of 2002 compared with a decline of 1.7% in the same period of 2001.

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

	Jan - Sept.	
	2001	2002
Cargo by KPA (MT)	22.7	0.3
Cargo by KR (MT)	-7.0	2.6
Passengers thro JKIA	17.6	5.9
Throughput by KPC	3.8	-3.1
Consumption of fuels	-1.7	4.5

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

### Trade, Restaurants and Hotels

The tourism sector slowed down during the first nine months of 2002 as follows:

- Tourists arriving at the JKIA declined by 8.5% compared with an increase of 3.0% in the same period in 2001. Tourists arriving at Moi International Airport, Mombasa (MIAM) also declined by 0.3% in the first nine months of 2002.



- Consequently, earnings in the sector declined by US \$ 63.1 to US \$ 161.6m in the first nine months of 2002 compared with US \$ 224.7m in a similar period in 2001.

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

### **Financial Services**

During the first nine months of 2002, banking institutions' pre-tax profits was Ksh 6.6bn compared with Ksh 8.1bn earned in the same period of 2001. The decline in profitability was partly due to the decline in interest rates over the period. Provisions for bad and doubtful debts, however, declined to Ksh 4.8bn during the first nine months of 2002 from Ksh 5.3bn in a comparable period in 2001, while total expenses of the sector declined to Ksh 37.9bn compared with Ksh 40.6bn in the review period.

### **Government Services**

Government services over the review period continued to be constrained by budgetary constraints partly due to the delay in the restoration of external financial assistance.

### **Economic Prospects in 2003**

The economy is expected to expand by 2.3% in 2003. The growth momentum will continue to be driven by agriculture and other related sectors. Increased access to regional markets within the East African Community (EAC), COMESA, and other preferential arrangements such as AGOA will also continue to be pivotal to improved economic performance. Increased investor confidence, hinged on renewed possibility for the country getting back on PRGF program, will also enhance growth.

## BALANCE SHEET OF THE CENTRAL BANK OF KENYA

(Amounts in Ksh Millions)

	Oct. 2001	Oct. 2002	Movement
<b>ASSETS</b>	<b>142,933</b>	<b>159,109</b>	<b>16,176</b>
Foreign Exchange	78,413	86,087	7,674
Advances and Discounts to Banks	873	5,361	4,488
Investment in Government Securities	1,384	1,376	-8
Government Accounts	39,439	45,848	6,409
Overdraft to Government of Kenya	-	5,850	5,850
Clearing Account	554	980	426
IMF funds lent to Government	1,968	2,101	133
Non-interest Bearing Government Debt	36,917	36,917	0
Debtors	1,844	1,696	-148
Retirement Benefits	289	287	-2
Property and Equipment	581	812	231
Other Assets	20,110	17,642	-2,468
Revaluation Account	18,642	17,642	-1,000
Times Tower	1,468	-	-1,468
<b>LIABILITIES</b>	<b>142,933</b>	<b>159,109</b>	<b>16,176</b>
Currency in Circulation	48,902	53,060	4,158
Repo Securities	7,430	21,687	14,257
Deposits	79,574	70,383	-9,191
Government of Kenya	37,777	27,071	-10,706
Commercial Banks			
Kenya	22,800	23,858	1,058
External	28	20	-8
Non -bank Financial Institutions	430	218	-212
IMF	10,450	9,682	-768
Other Public Entities and Project A/Cs	8,089	9,534	1,445
Other Liabilities and Provisions	420	1,592	1,172
Capital and Reserves	6,607	12,387	5,780
Capital	1,500	1,500	0
General Reserve Fund	4,248	7,978	3,730
Period's Surplus	859	2,909	2,050

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 October 2001 and October 2002:

### Assets

**Foreign exchange** increased by Ksh 7,674m to Ksh 86,087m from Ksh 78,413m mainly due to purchase of foreign exchange from the interbank market.

**Advances and discounts** to commercial banks increased by Ksh 4,488m to Ksh 5,361m.

**Government accounts** increased by Ksh 6,409m to Ksh 45,848m in October 2002, mainly on account of increases in the overdraft to Government of Kenya and clearing house by Ksh 5,850m and Ksh 426m, respectively.

**Other assets**, comprising revaluation account and Times Tower, decreased by Ksh 2,468m to Ksh 17,642m.

### Liabilities

**Currency in circulation** increased by Ksh 4,158m to Ksh 53,060m from Ksh 48,902m.

The stock of **repo securities** increased by Ksh 14,257m to Ksh 21,687m.

**Deposits** decreased by Ksh 9,191m to Ksh 70,383m due to a decrease in deposits of the Government of Kenya by Ksh 9,191m. Similarly, deposits of IMF and non-bank financial institutions declined by Ksh 768m and Ksh 212m, respectively. Deposits of other public entities, however, rose by Ksh 3,295m.

**Other liabilities and provisions** increased by Ksh 1,172m to Ksh 1,592m.

**Capital and reserves** increased by Ksh 5,780m to Ksh 12,387m in the year to October 2002 due to Ksh 3,730m increase in the general reserve fund and Ksh 2,050m increase in the period's surplus.

