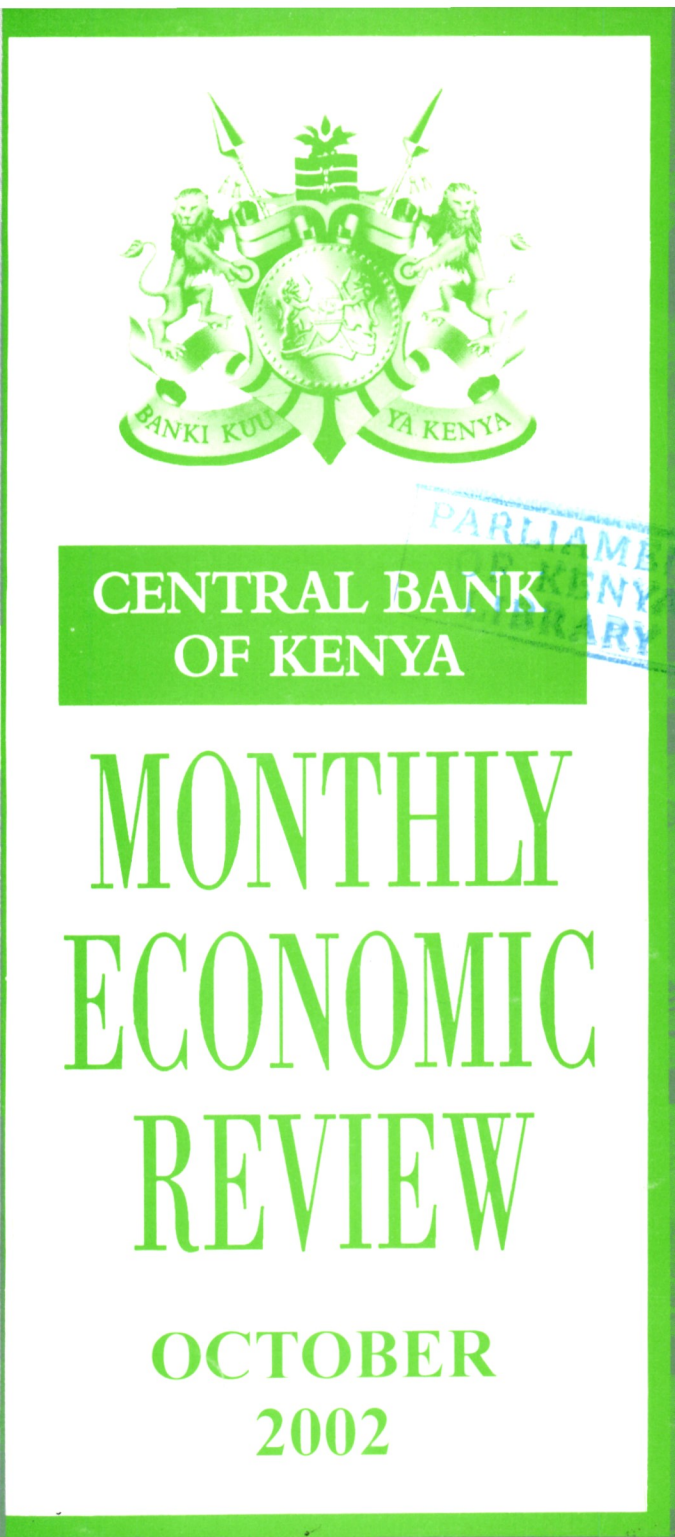
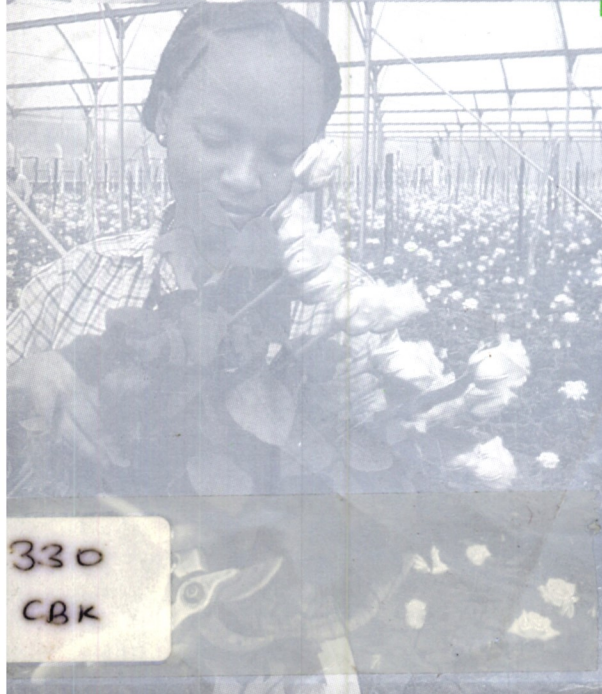
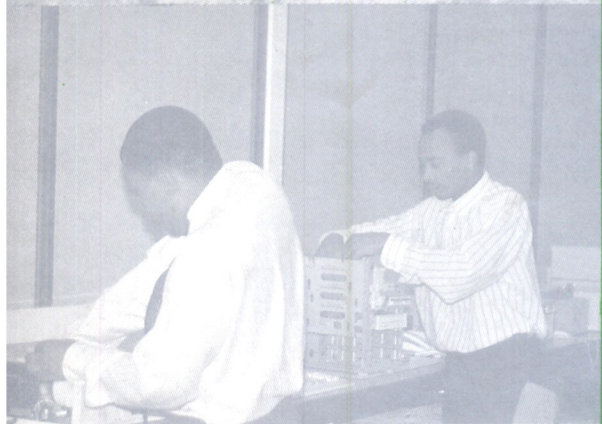




CENTRAL BANK
OF KENYA

MONTHLY
ECONOMIC
REVIEW

OCTOBER
2002



330
CBK

OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

PRINCIPAL OBJECTIVES

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

SECONDARY OBJECTIVES

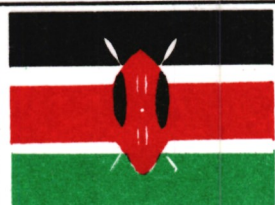
Without prejudice to the generality of the above two principal objectives, the Bank's secondary objectives shall be to:

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

KENYA NATIONAL ASSEMBLY
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KENYA MONTHLY ECONOMIC REVIEWS

The Monthly Economic Reviews, prepared by the Central Bank of Kenya, starting with the June 1997 edition, are available on the Internet at the address:

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email: info@centralbank.go.ke

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P. O. Box 60000, Nairobi.

Economic indicators for the first seven months of 2002 show that **real GDP** grew at an estimated annualized rate of 0.7% compared with 0.5% in the same period of 2001. Inflationary pressures eased further in September 2002, with the 12-month underlying **inflation** declining to 1.4% from 1.5% in August. The overall 12-month inflation was unchanged at 1.8% in September 2002.

Interest rate for the 91-day Treasury bills declined to 7.6% in September 2002 from 8.3% in August. **Money supply**, M3X, increased by 10.9% in the year to August 2002 compared with 0.3% decline in the year to July 2001. The increase in the money supply in the year to August 2002 was due to increases in both net foreign assets and net domestic assets of the banking system.

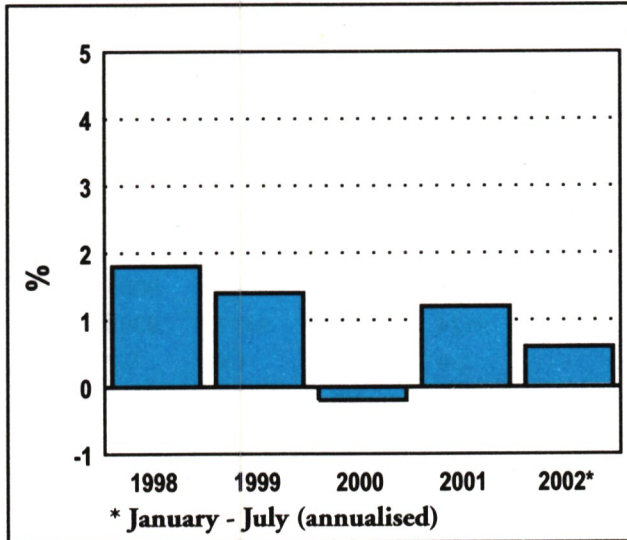
Assets of the **banking sector** increased to Ksh 451.2bn at the end of August 2002 from Ksh 426.4bn at the end of August 2001. Non-performing loans (NPLs), net of interest in suspense, were estimated at Ksh 72.9bn in August 2002, compared with Ksh 77.5bn in August 2001. Provisions for the NPLs declined from Ksh 33.5bn in August 2001 to Ksh 31.2bn in August 2002. After the adjustment for the provisions and the value of securities held by the banking sector, which are estimated at Ksh 36.1bn, only Ksh 8.2bn of the NPLs were exposed.

Government fiscal operations during the first two months of fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 9.7bn or 1.0% of GDP compared with a deficit of Ksh 4.5bn or 0.5% of GDP in a similar period in the previous fiscal year. The stock of public debt increased to Ksh 623.9bn in August 2002 from Ksh 613.8bn in June 2002. The increase was entirely in domestic debt as external debt declined.

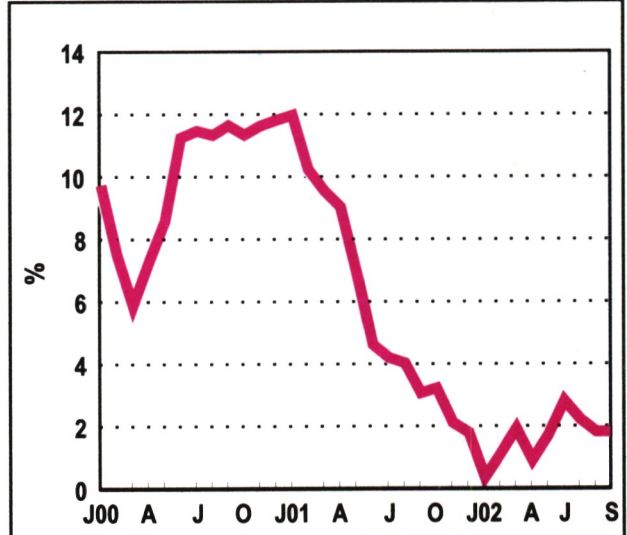
The **Kenya shilling** marginally weakened against the US dollar in September 2002 to exchange at Ksh 78.81 compared with Ksh 78.57 in August 2002. The overall **balance of payments** improved to a US\$ 96m surplus in the year to August 2002 from a US\$ 66m deficit over similar period in 2001. The Central Bank **foreign exchange reserves** consequently increased to US\$ 1,119m or 3.8 months of imports cover at the end of August 2002 from US\$ 1,004m or 3.3 months of imports cover at the end of August 2001.

SELECTED PERFORMANCE INDICATORS

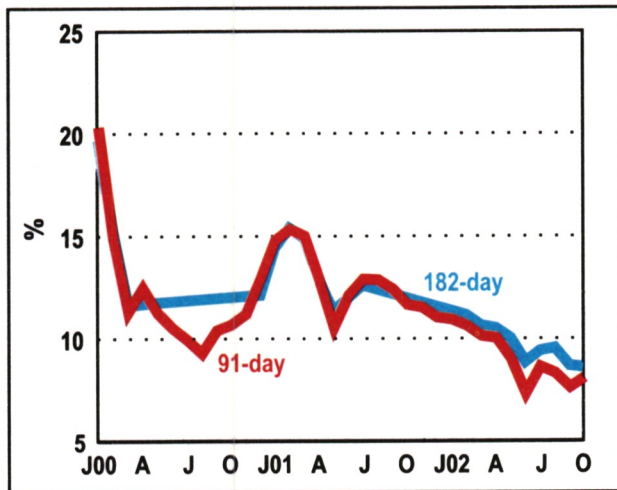
Real GDP Growth



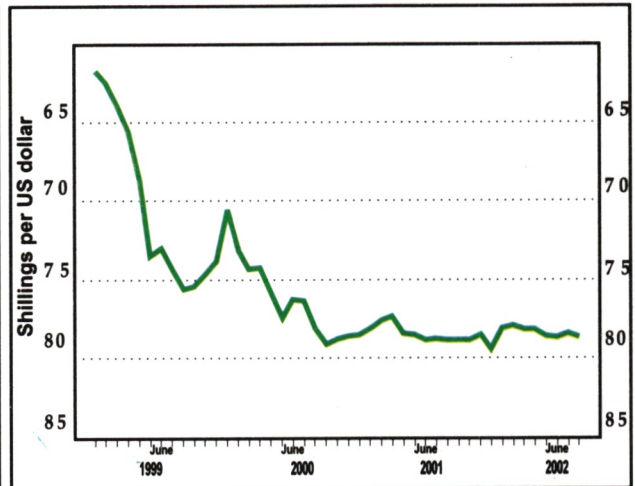
Overall Inflation



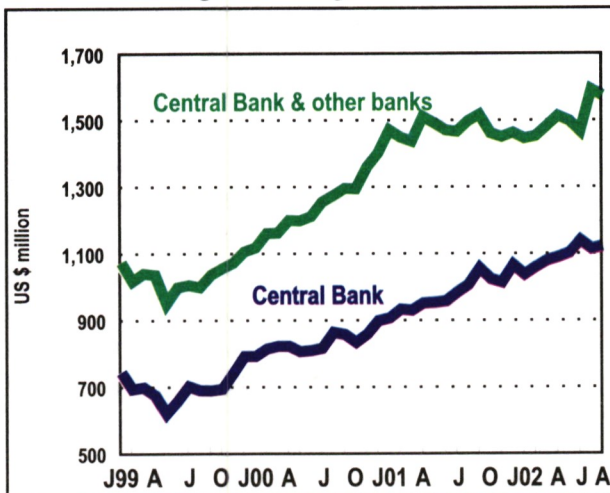
Interest Rate (Treasury Bills)



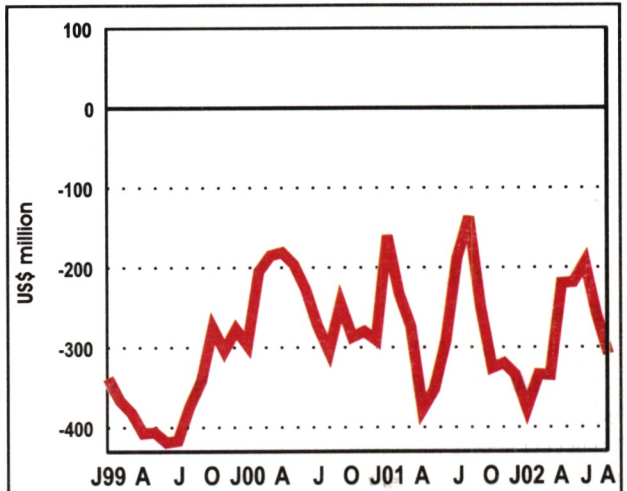
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



Source: Central Bank of Kenya

SELECTED ANNUAL ECONOMIC INDICATORS, 1997 - 2001

| INDICATOR | 1997 | 1998 | 1999 | 2000 | 2001* |
|---|--------------|--------------|--------------|--------------|--------------|
| 1. POPULATION | | | | | |
| People in Millions | 28.1 | 28.8 | 29.5 | 30.2 | 30.8 |
| Growth (%) | 2.5 | 2.4 | 2.2 | 2.1 | 2.1 |
| 2. NATIONAL ACCOUNTS | | | | | |
| GDP Market Prices (Ksh bn) | 623 | 691 | 742 | 796 | 895 |
| GDP at Factor Cost (US\$M): | | | | | |
| At Current Prices | 9120 | 9825 | 9090 | 9005 | 9833 |
| At Constant 1982 Prices | 9124 | 9285 | 9417 | 9393 | 9465 |
| Real GDP Growth (%) | 2.4 | 1.8 | 1.4 | -0.2 | 1.2 |
| Per Capita Income (US Dollars) | 325 | 322 | 319 | 311 | 309 |
| 3. GROSS DOMESTIC SAVINGS (% of GDP at mkt prs) | 10.5 | 9.8 | 10.9 | 7.4 | 6.5 |
| 4. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prs) | 18.5 | 17.4 | 16.2 | 15.4 | 14.5 |
| 5. CONSUMER PRICE INFLATION | | | | | |
| Average Annual Inflation | 11.2 | 6.6 | 5.7 | 10.0 | 5.8 |
| Twelve-month Inflation | 8.3 | 2.5 | 10.4 | 11.8 | 1.6 |
| 6. STOCK MARKET | | | | | |
| Nairobi Stock Exchange Price Index (1966=100) | 3115.1 | 2962.1 | 2303.2 | 1913.4 | 1355.1 |
| Trade Turnover (%) | 0.3 | 0.4 | 0.2 | 0.2 | 0.2 |
| 7. GOVERNMENT BUDGET (Ksh bn) ** | | | | | |
| Revenue and Grants | 155.0 | 184.9 | 201.2 | 182.7 | 216.4 |
| Expenditure | 159.8 | 195.0 | 197.3 | 175.2 | 232.9 |
| Budget Deficit (-) / Surplus (+) | -4.7 | -10.1 | 3.8 | 7.6 | -16.5 |
| Budget Deficit (% of GDP) | -0.8 | -1.6 | 0.5 | 1.0 | -2.1 |
| 8. MONEY AND CREDIT (Ksh bn)(END PERIOD) | | | | | |
| Money Supply (M3XT) | 370.6 | 381.3 | 414.4 | 435.5 | 462.1 |
| Money Supply (M3X) | 321.8 | 333.6 | 345.7 | 360.0 | 368.4 |
| Reserve Money | 75.9 | 75.0 | 79.0 | 77.7 | 79.1 |
| Total Domestic Credit | 327.4 | 350.6 | 358.5 | 362.1 | 369.1 |
| Government | 82.7 | 91.1 | 84.1 | 76.4 | 89.1 |
| Others | 244.7 | 260.6 | 274.3 | 285.6 | 280.0 |
| 9. BALANCE OF PAYMENTS (US\$ m) | | | | | |
| Overall Balance | -33 | 66 | -21 | -8 | 147 |
| Current Account | -450 | -549 | -214 | -288 | -229 |
| Capital and Financial Account | 417 | 615 | 193 | 279 | 376 |
| 10. FOREIGN EXCHANGE RESERVES (US\$ m) | 1,099 | 1,100 | 1,104 | 1,398 | 1,459 |
| Official*** | 788 | 783 | 791 | 897 | 1064 |
| Months of imports | (2.5) | (2.5) | (2.9) | (2.9) | (3.5) |
| Commercial banks & public | 311 | 317 | 313 | 501 | 395 |
| 11. PUBLIC DEBT (US\$ bn) | 8.5 | 8.7 | 8.0 | 7.7 | 7.7 |
| Domestic | 2.7 | 3.0 | 2.6 | 2.5 | 2.7 |
| As % of GDP | 29.2 | 30.2 | 24.5 | 23.8 | 25.0 |
| External | 5.8 | 5.7 | 5.4 | 5.2 | 5.0 |
| As % of GDP | 64.0 | 57.7 | 50.6 | 50.2 | 46.6 |
| 12. EXCHANGE RATE (Ksh/US\$) (ANNUAL AVERAGE) | 58.8 | 60.4 | 70.3 | 76.2 | 78.6 |

* Provisional.

** Fiscal year ending June 30th.

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

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

SELECTED MONTHLY ECONOMIC INDICATORS

| INDICATOR | 2001 | | | | 2002 | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------|
| | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep* |
| 1. INFLATION (%) | | | | | | | | | | |
| Overall | | | | | | | | | | |
| 12-month | 1.8 | 0.4 | 1.1 | 1.9 | 0.9 | 1.7 | 2.8 | 2.2 | 1.8 | 1.8 |
| Average annual | 5.8 | 4.8 | 4.1 | 3.5 | 2.8 | 2.4 | 2.3 | 2.1 | 1.9 | 1.8 |
| Underlying (overall excluding food) | | | | | | | | | | |
| 12-month | 5.1 | 3.0 | 2.8 | 3.4 | 3.4 | 3.5 | 2.9 | 2.0 | 1.5 | 1.4 |
| Average annual | 6.7 | 6.2 | 5.8 | 5.5 | 5.2 | 5.0 | 4.6 | 4.3 | 3.9 | 3.4 |
| 2. INTEREST RATES (%) | | | | | | | | | | |
| 91-day Treasury bill | 11.0 | 10.9 | 10.6 | 10.1 | 10.0 | 9.0 | 7.3 | 8.6 | 8.3 | 7.6 |
| Overdraft | 20.0 | 19.3 | 19.2 | 18.8 | 18.9 | 18.7 | 18.5 | 18.3 | 18.6 | 18.6 |
| 3. STOCK MARKET | | | | | | | | | | |
| Nairobi Stock Exchange Price Index | 1355.1 | 1343.0 | 1313.6 | 1183.1 | 1129.3 | 1071.1 | 1082.6 | 1097.7 | 1043.4 | 1043.4 |
| Trade Turnover (%) | 0.17 | 0.15 | 0.16 | 0.21 | 0.23 | 0.23 | 0.19 | 0.29 | 0.27 | 0.36 |
| 4. GOVERNMENT BUDGET** (Ksh bn.) | | | | | | | | | | |
| Revenue and Grants | 93.8 | 110.5 | 127.0 | 142.3 | 161.6 | 181.0 | 203.3 | 13.6 | 30.1 | .. |
| Expenditure: | 102.2 | 122.4 | 140.4 | 157.6 | 178.3 | 199.2 | 225.6 | 17.5 | 39.8 | .. |
| Budget Deficit (-) / Surplus (+) | -8.4 | -12.0 | -13.4 | -15.3 | -16.7 | -18.1 | -22.3 | -3.8 | -9.7 | .. |
| 5. MONEY AND CREDIT (Ksh bn.) | | | | | | | | | | |
| Money Supply (MBXT) | 462.1 | 460.2 | 467.7 | 466.4 | 473.1 | 477.2 | 483.9 | 487.9 | 499.1 | .. |
| Money Supply (MBX) | 368.4 | 360.6 | 366.5 | 366.1 | 371.4 | 373.2 | 378.3 | 381.2 | 389.8 | .. |
| Reserve Money | 79.1 | 73.6 | 73.8 | 75.8 | 75.3 | 76.6 | 76.9 | 83.0 | 77.6 | .. |
| Total Domestic Credit | 334.0 | 325.8 | 325.8 | 329.5 | 342.6 | 338.8 | 341.8 | 345.4 | 355.0 | .. |
| Government | 89.1 | 84.2 | 82.7 | 88.6 | 97.9 | 94.7 | 94.7 | 100.4 | 102.2 | .. |
| Private Sector | 244.9 | 241.7 | 243.1 | 240.8 | 244.8 | 244.1 | 247.2 | 245.0 | 252.8 | .. |
| 6. MONEY AND CREDIT (Annual %Change) | | | | | | | | | | |
| Money Supply (MBXT) | 6.1 | 4.3 | 7.3 | 5.7 | 6.3 | 7.5 | 8.4 | 8.6 | 11.6 | .. |
| Money Supply (MBX) | 2.3 | 0.0 | 3.1 | 2.1 | 2.0 | 4.8 | 6.7 | 7.6 | 10.9 | .. |
| Reserve Money | 1.8 | 3.4 | 4.4 | 8.2 | 2.5 | 8.0 | 10.9 | 16.7 | 5.0 | .. |
| Total Domestic Credit | 0.8 | -1.2 | -2.9 | -0.6 | 1.3 | 3.5 | 5.4 | 5.5 | 8.6 | .. |
| Government | 16.5 | 14.9 | 9.4 | 16.7 | 16.3 | 32.9 | 37.9 | 40.2 | 37.2 | .. |
| Private Sector | -3.9 | -5.9 | -6.5 | -5.7 | -3.7 | -4.6 | -3.4 | -4.2 | 0.1 | .. |
| 7. BALANCE OF PAYMENTS (US\$ m) | | | | | | | | | | |
| Overall Balance | 42 | -26 | 24 | 22 | 12 | 23 | 41 | -22 | 9 | .. |
| Current Account Balance | -11 | -51 | 11 | -72 | -2 | -25 | 70 | -28 | -37 | .. |
| Trade Balance | -83 | -83 | -22 | -119 | -44 | -69 | -45 | -85 | -119 | .. |
| Capital and Financial Account | 53 | 25 | 13 | 95 | 14 | -2 | -29 | 6 | 46 | .. |
| 8. FOREIGN EXCHANGE RESERVES (US \$ m) | 1459 | 1442 | 1450 | 1479 | 1511 | 1495 | 1463 | 1588 | 1570 | .. |
| Official*** | 1064 | 1035 | 1057 | 1077 | 1087 | 1100 | 981 | 1112 | 1119 | .. |
| Months of imports | (3.5) | (3.4) | (3.6) | (3.7) | (3.8) | (3.8) | (3.8) | (3.8) | (3.8) | .. |
| Commercial banks | 395 | 406 | 393 | 402 | 423 | 395 | 482 | 476 | 451 | .. |
| 9. PUBLIC DEBT (US\$ bn) | 7.7 | 7.7 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.9 | 7.9 | .. |
| Domestic | 2.8 | 2.8 | 2.9 | 2.9 | 3.0 | 3.0 | 3.0 | 3.1 | 3.1 | .. |
| As % of GDP | 23.9 | 24.2 | 24.7 | 24.9 | 25.3 | 25.2 | 25.6 | 24.6 | 25.1 | .. |
| External | 4.9 | 4.9 | 4.9 | 4.9 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | .. |
| As % of GDP | 41.8 | 41.5 | 41.5 | 41.3 | 41.1 | 41.1 | 41.1 | 38.3 | 38.3 | .. |
| 10. GROSS DOMESTIC DEBT (Ksh bn)**** | 220.0 | 222.7 | 227.6 | 229.2 | 233.1 | 231.8 | 236.0 | 242.1 | 247.2 | .. |
| 11. AVERAGE EXCHANGE RATE | | | | | | | | | | |
| Ksh/US\$ | 78.7 | 78.6 | 78.3 | 78.1 | 78.3 | 78.3 | 78.7 | 78.8 | 78.6 | 78.6 |
| Ksh/Pound Sterling | 113.2 | 112.8 | 111.4 | 111.1 | 112.9 | 114.4 | 116.6 | 122.6 | 120.8 | 120.8 |
| Ksh/ 100 Yen | 61.9 | 59.3 | 58.6 | 59.5 | 59.6 | 61.9 | 63.7 | 66.7 | 66.0 | 66.0 |
| Ksh/Euro | 70.2 | 69.5 | 68.1 | 68.4 | 69.3 | 71.8 | 75.1 | 78.3 | 76.9 | 76.9 |

* Provisional.

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

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

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

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

INFLATION

Introduction

Inflation has been on a downward trend beginning June through September 2002. The decline in inflation is largely attributed to sustained prudent monetary policy, stability in the shilling exchange rate and reduced pressures on food prices occasioned by increased supply.

Overall Inflation

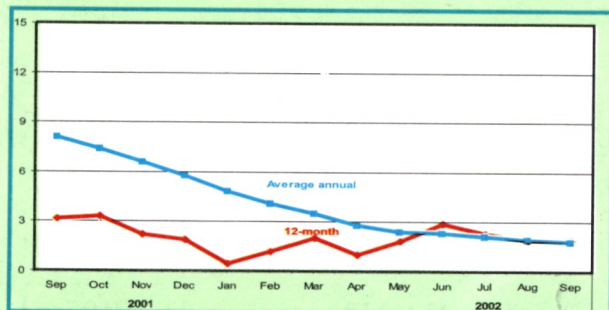
The recent development in the overall inflation were as follows (Table 1 and Chart 1):

- The overall 12-month inflation was 1.8% in August and September 2002, compared with 2.2% in July.
- The overall average annual inflation eased to 1.8% in September 2002 from 1.9% in August.

TABLE 1: OVERALL INFLATION (%)

| | 2001 | | | | | 2002 | | | | | |
|-----------------------------|------|------|------|------|------|------|------|-----|------|------|------|
| | Jan | Mar | Jun | Sep | Dec | Jan | Mar | Jun | Jul | Aug | Sep |
| 12-month ¹ | 12.0 | 9.5 | 4.6 | 3.1 | 1.8 | 0.4 | 1.9 | 2.8 | 2.2 | 1.8 | 1.8 |
| Average annual ² | 10.2 | 10.4 | 10.1 | 8.1 | 5.8 | 4.8 | 3.5 | 2.3 | 2.1 | 1.9 | 1.8 |
| Changes over one month | 0.9 | -0.6 | 0.2 | -0.3 | -0.2 | -0.5 | 0.2 | 1.2 | -0.5 | -0.1 | -0.3 |
| Changes over 3 months | 1.9 | -0.3 | 2.3 | 0.1 | -0.3 | -0.9 | -0.2 | 3.4 | 2.7 | 2.1 | -1.0 |

CHART 1



Sources: Central Bureau of Statistics & Central Bank of Kenya

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

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

- In September 2002, overall inflation declined by 0.3%, compared with a decline of 0.1% in August 2002.

Underlying Inflation

Table 2 and Chart 2 shows the following developments in underlying inflation:

- The underlying 12-month inflation declined to 1.4% in September 2002 from 1.5% in the previous month.
- Underlying average annual inflation fell to 3.4% in September 2002 from 3.9% in September of the previous year.
- In September 2002, the underlying inflation increased by 0.2% compared with a decline of 0.1% in August.

TABLE 2: UNDERLYING INFLATION (%)

| | 2001 | | | | | 2002 | | | | | |
|------------------------|------|------|-----|-----|-----|------|------|-----|-----|------|-----|
| | Jan | Mar | Jun | Sep | Dec | Jan | Mar | Jun | Jul | Aug | Sep |
| 12-month | 8.3 | 7.5 | 6.7 | 6.5 | 5.1 | 3.0 | 3.4 | 2.9 | 2.0 | 1.5 | 1.4 |
| Average annual | 6.8 | 7.1 | 7.1 | 6.8 | 6.7 | 6.2 | 5.5 | 4.6 | 4.3 | 3.9 | 3.4 |
| Changes over one month | 1.5 | -0.1 | 0.6 | 0.3 | 0.2 | -0.5 | 0.5 | 0.0 | 0.1 | -0.1 | 0.2 |
| Changes over 3 months | 3.0 | 1.5 | 1.6 | 1.8 | 0.1 | -0.6 | -0.1 | 1.2 | 0.7 | 0.0 | 0.3 |

CHART 2



Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Income Groups

In September 2002, inflation in goods and services purchased by the various income groups evolved as follows (Table 3 and Chart 3):

- The 12-month inflation in goods and services purchased by the Nairobi lower

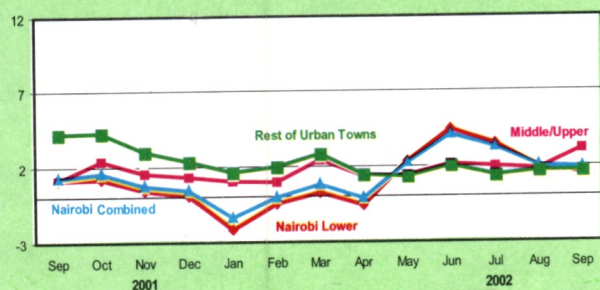
income group, declined to 1.6% from 2.0% in August.

- The 12-month inflation in goods and services purchased by the Nairobi middle/upper income group increased to 3.2% from 1.9% in August.
- Consequently, the 12-month inflation in goods and services purchased by combined Nairobi income groups declined to 1.9% from 2.0%.
- The 12-month inflation in goods and services purchased by consumers in the rest of urban towns remained at 1.7% in August and September 2002.

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

| | 2001 | | | | | 2002 | | | | | |
|----------------------|------|------|-----|-----|-----|------|-----|-----|-----|-----|-----|
| | Jan | Mar | Jun | Sep | Dec | Jan | Mar | Jun | Jul | Aug | Sep |
| Nairobi Lower | 11.5 | 8.2 | 1.3 | 1.3 | 0.2 | -2.0 | 0.4 | 4.5 | 3.5 | 2.0 | 1.6 |
| Nairobi middle/upper | 8.7 | 6.0 | 4.6 | 1.3 | 1.5 | 1.2 | 2.5 | 2.2 | 2.1 | 1.9 | 3.2 |
| Nairobi Combined | 10.9 | 7.8 | 1.9 | 1.3 | 0.4 | -1.4 | 0.8 | 4.1 | 3.3 | 2.0 | 1.9 |
| Rest of Urban Towns | 12.7 | 10.6 | 6.4 | 4.2 | 2.4 | 1.7 | 2.8 | 2.1 | 1.4 | 1.7 | 1.7 |

CHART 3



Sources: Central Bureau of Statistics & Central Bank of Kenya

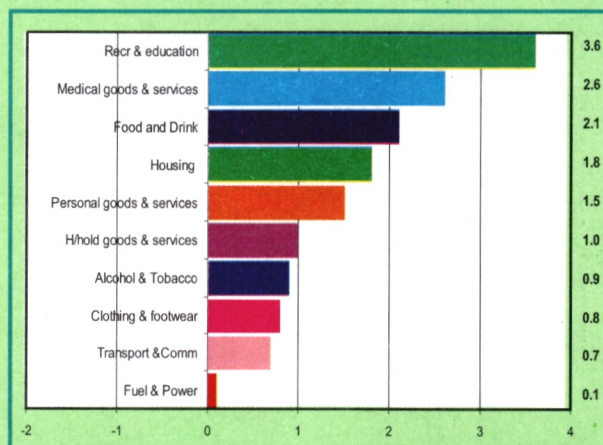
1.8% and 0.9% from 2.5% and 3.2% respectively in August, while inflation in the food and soft drinks remained unchanged at 2.1% in the review period. Other categories of goods and services recorded modest increases in inflation as indicated in Table 4 and Chart 4.

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

| Goods and Services | Income Groups* | | | Combined weights (100) | Inflation (%) | |
|---------------------------|----------------------|--------------------|----------------------------|------------------------|---------------|-----|
| | Nairobi Lower (31.9) | Middle/Upper (8.0) | Rest of Urban Towns (60.1) | | Aug | Sep |
| Food and Drink | 55.7 | 31.9 | 50.2 | 50.5 | 2.1 | 2.1 |
| Housing | 11.9 | 31.7 | 9 | 11.7 | 2.5 | 1.8 |
| Recr & education | 4.6 | 7.3 | 6.6 | 6.0 | 3.4 | 3.6 |
| Hhold goods & services | 5 | 4.7 | 6.4 | 5.8 | 0.9 | 1.0 |
| Clothing & footwear | 9.2 | 7.4 | 9.1 | 9.0 | 0.7 | 0.8 |
| Transport & Comm | 5.1 | 10.2 | 5.5 | 5.7 | -0.3 | 0.7 |
| Fuel & Power | 3.5 | 2.2 | 4.8 | 4.2 | -1.0 | 0.1 |
| Medical goods & services | 0.9 | 1.3 | 2 | 1.6 | 2.2 | 2.6 |
| Personal goods & services | 2.3 | 1.9 | 2.6 | 2.4 | 1.4 | 1.5 |
| Alcohol & Tobacco | 1.8 | 1.4 | 3.8 | 3.0 | 3.2 | 0.9 |

* Numbers in parentheses are income group weights

CHART 4



Sources: Central Bureau of Statistics & Central Bank of Kenya

Outlook

Inflation is expected to remain within the 5% target in the next twelve months supported by appropriate monetary policy stance, stable shilling exchange rate and expected adequate food supply. The current tensions in the Middle East may, however, exert some inflationary pressures through increases in the prices of crude oil.

Inflation by Categories of Goods and Services

Mixed trends were recorded on inflation in various categories of goods and services in September 2002 (Table 4 and Chart 4). Inflation in housing, and alcohol and tobacco declined to

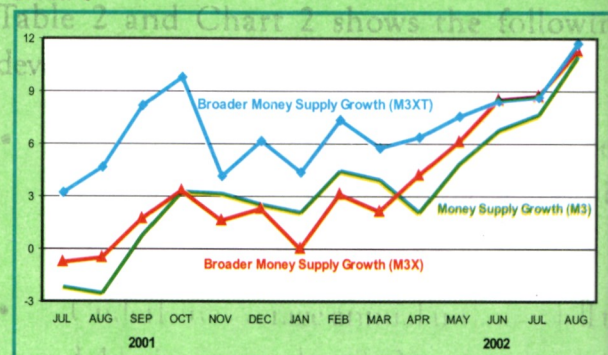
MONEY AND CREDIT

Money supply increased more rapidly in the twelve months to August 2002 relative to respective targets and developments in the year to August 2001 (Tables 5 and 6, and Chart 5). Narrow money supply, M3, comprising currency outside banking institutions and shillings denominated deposits held by the private sector with banks, increased by 11.3% compared with 5.6% target growth and a decline of 2.5% in the year to August 2001. Broad money supply, M3X, which includes M3 and residents foreign currency deposits increased by 10.9% compared with 5.2% target growth and 0.3% decline in the twelve

TABLE 5: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

| | 2001 | | | 2002 | | | | | | | |
|------|------|------|------|------|-----|-----|-----|-----|-----|-----|------|
| | Mar | Jun | Jul | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug |
| MB | -0.1 | -1.3 | -2.2 | 2.0 | 4.4 | 3.9 | 4.2 | 6.1 | 8.5 | 8.7 | 11.3 |
| MBX | 3.7 | 2.1 | -0.8 | 0.0 | 3.1 | 2.1 | 2.0 | 4.8 | 6.7 | 7.6 | 10.9 |
| MBXT | 4.8 | 5.3 | 3.1 | 4.3 | 7.3 | 5.7 | 6.3 | 7.5 | 8.4 | 8.6 | 11.6 |

CHART 5



Source: Central Bank of Kenya

TABLE 6: MONEY SUPPLY AND ITS SOURCES, KSH BN

| | Aug | Aug | Annual Change | |
|---|-------|-------|---------------|-------|
| | 2001 | 2002 | Absolute | % |
| 1. Money supply, M3XT 1/ | 447.1 | 499.1 | 52.0 | 11.6 |
| 2. Money supply, M3X (4+5) 2/ | 351.4 | 389.8 | 38.4 | 10.9 |
| 3. Money supply, M3 3/ | 304.3 | 338.7 | 34.4 | 11.3 |
| Of which: M2 | 287.9 | 323.8 | 35.8 | 12.4 |
| 4. Net foreign assets 4/ | 91.1 | 97.4 | 6.3 | 6.9 |
| Central Bank | 69.3 | 76.5 | 7.2 | 10.3 |
| Banking Institutions | 21.8 | 20.9 | -0.9 | -4.0 |
| 5. Net domestic assets (5.1+5.2) | 260.3 | 292.4 | 32.1 | 12.3 |
| 5.1 Domestic credit (5.1.1+5.1.2) | 326.9 | 355.0 | 28.0 | 8.6 |
| 5.1.1 Government (net) | 74.5 | 102.2 | 27.7 | 37.2 |
| Central Bank | 6.7 | 21.8 | 15.2 | 227.8 |
| Banking Institutions | 67.9 | 80.4 | 12.5 | 18.5 |
| 5.1.2 Private sector and other public sector 5/ | 252.4 | 252.8 | 0.3 | 0.1 |
| 5.2 Other net domestic assets (5-5.1) | -66.7 | -62.6 | 4.1 | 6.1 |
| 6. Reserve money | 73.9 | 77.6 | 3.7 | 5.0 |
| Currency in circulation | 47.6 | 53.2 | 5.6 | 11.8 |
| Banking Institutions' deposits with CBK | 26.3 | 24.4 | -1.9 | -7.2 |
| Memorandum items | | | | |
| Treasury bills outstanding | 117.5 | 118.7 | 1.3 | 1.1 |

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

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

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

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

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

5/ Excludes interest in suspense.

Source: Central Bank of Kenya

months to August 2001. Reflecting partly the growth in M3X and partly the increased holdings of Government securities held by the non bank public, broader money supply, M3XT, increased by 11.6% compared with 8.5% target growth and 3.6% increase in the year to August 2001. The money supply expansion was also reflected in the base money, or reserve money, which increased by 5% compared with 0.6% fall in the year to August 2001.

The money measure, M3X, most closely monitored by the Central Bank, grew by 10.9% in the twelve months to August 2002 due to increases in the net foreign assets (NFA) and net domestic assets (NDA) of the banking system. The NFA increased by 6.9% in the year reflecting 10.3% accumulation of it by the Central Bank and 4% decline in its holding by commercial banks, while the NDA increased by 12.3% largely due to acceleration in domestic credit to government. Meanwhile, other domestic assets net of other liabilities increased by 6.1% in the year to August 2002 compared with 16.9% decline in the year to August 2001.

Reserve Money

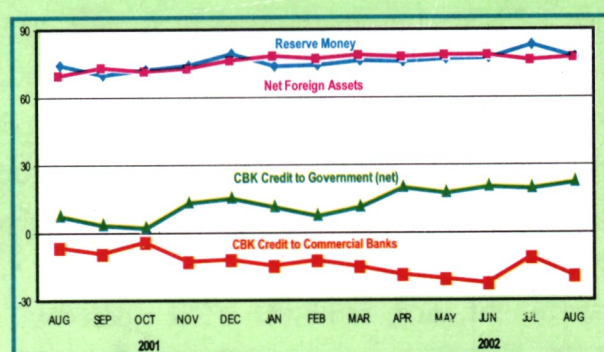
Reserve money, comprising currency in circulation and deposits of commercial banks and NBFIs at the Central Bank, increased by 5% to Ksh 77.6bn in the twelve months to August 2002 compared with 0.6% increase in the year to August 2001 (Table 7 and Chart 6). The reserve money expansion during the period under review was wholly through 11.8% increase in currency in circulation that fully offset the 7.2% decline in deposits of both commercial banks and NBFIs. The reserve money expansion in the twelve months to August 2002 however, remained

within target by Ksh 1.1bn. This favourable performance was attributed to an aggressive sterilization programme through secondary sale of repo treasury bills to banks under open market operations (OMO) by the Central Bank.

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

| | 2001 | | 2002 | | Annual Change | |
|-----------------------------------|------|-------|-------|--------|---------------|---|
| | Aug | Aug | Aug | Aug | Absolute | % |
| 1. Net Foreign Assets | 69.4 | 76.5 | 7.1 | 10.3 | | |
| Net Domestic Assets | 4.5 | 1.1 | -3.4 | -75.5 | | |
| 2.1 Government Borrowing (net) | 6.7 | 21.8 | 15.2 | 227.9 | | |
| 2.2 Advances & Discounts | -7.2 | -20.0 | -12.8 | 176.9 | | |
| 2.3 Other Domestic Assets (net) | 5.1 | -0.8 | -5.8 | -115.0 | | |
| 3. Reserve Money | 73.9 | 77.6 | 3.7 | 5.0 | | |
| 3.1 Banks & NBFIs Deposits at CBK | 26.3 | 24.4 | -1.9 | -7.2 | | |
| 3.2 Currency in Circulation | 47.6 | 53.2 | 5.6 | 11.8 | | |

CHART 6



Source: Central Bank of Kenya

The reserve money expansion during the twelve months to August 2002 was wholly in the net foreign assets (NFA) as net domestic assets (NDA) of the Central Bank declined. The NFA increased by 10.3%, largely reflecting purchases of foreign exchange from the inter-bank market. Meanwhile, NDA declined by 75.5% as a result of liquidity mop up operations by the Bank. Developments in the components of NDA of the Central Bank were as follows:

- Net indebtedness of commercial banks to the Central Bank increased by Ksh 12.8bn due to Ksh 12.3bn additional liquidity sterilization through sales of repo treasury bills under OMO to banks.

- Government borrowing from the Central Bank net of deposits increased by Ksh 15.2bn in the year to August 2002 after Ksh 7.1bn government run down of deposits at the Bank and Ksh 8bn increase in advances.
- Other domestic assets net of other domestic liabilities declined by Ksh 5.8bn.

Credit Developments

Net domestic credit (NDC) increased by 8.6% in the twelve months to August 2002 compared with 1.7% decline in the year to August 2001 (Table 8 and Chart 7). The credit expansion in the review period was wholly to the government as credit to the private and other public sectors remained almost unchanged. In the twelve months to August 2002, net credit to government, increased by 37.2% compared with 12.1% decline in the year to August 2001. The credit expansion in the year under review reflected increased borrowing from the Central Bank and commercial banks.

After declining from Ksh 252.4bn in August 2001 to an all time low of Ksh 240.8bn by March 2002, credit to the private and other public sectors recovered thereafter to a level marginally above that of August 2001. The recovery reflected partly 39.5% increase in lending to the telecommunications sub sector in respect of commercial paper floated by a mobile phone company in August 2002.

During the period under review, the private sector activities borrowed an additional Ksh 29.4n to finance miscellaneous activities, private households, building and construction, transport and communication, finance and insurance and

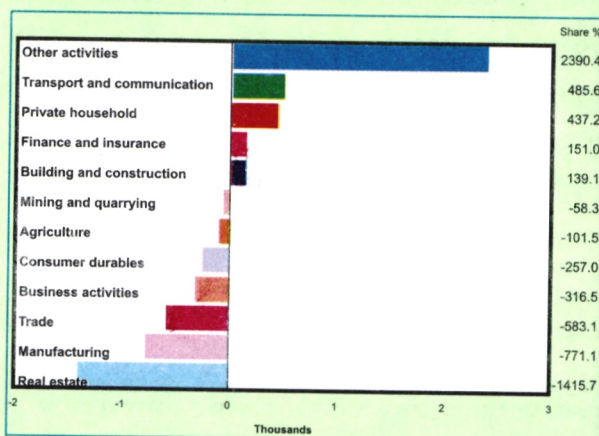
private households. However, the additional borrowing was offset by Ksh 28.6bn repayments by the real estate, manufacturing, trade, consumer durables, business services, and mining and quarrying sectors.

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

| | 2001 Aug | | 2002 Aug | | Annual Change | | Aug 01 - Aug 02 % of total change in credit to private sector |
|----------------------------------|----------|-----------|----------|-----------|---------------|--------|---|
| | Ksh bn | Share (%) | Ksh bn | Share (%) | Ksh bn | (%) | |
| 1. Credit to other public sector | 9.7 | 3.8 | 9.2 | 3.6 | -0.5 | -4.9 | |
| Local government | -0.2 | -0.1 | 0.2 | 0.1 | 0.4 | -172.2 | |
| Parastatals | 9.9 | 3.9 | 9.0 | 3.6 | -0.9 | -8.9 | |
| 2. Credit to private sector | 242.7 | 96.2 | 243.6 | 96.4 | 0.8 | 0.3 | 100.0 |
| Agriculture | 24.2 | 9.6 | 23.4 | 9.2 | -0.8 | -3.4 | -101.5 |
| Manufacturing | 56.3 | 22.3 | 50.0 | 19.6 | -6.3 | -11.2 | -771.1 |
| Trade | 48.2 | 19.1 | 43.4 | 17.2 | -4.8 | -9.9 | -583.1 |
| Building and construction | 18.5 | 7.3 | 19.7 | 7.8 | 1.1 | 6.1 | 139.1 |
| Transport & communications | 10.0 | 4.0 | 14.0 | 5.5 | 4.0 | 39.5 | 485.6 |
| Finance & insurance | 14.4 | 5.7 | 15.7 | 6.2 | 1.2 | 8.5 | 151.0 |
| Real estate | 19.6 | 7.8 | 8.1 | 3.2 | -11.5 | -58.8 | -1415.7 |
| Mining and quarrying | 2.4 | 1.0 | 2.0 | 0.8 | -0.5 | -19.5 | -58.3 |
| Private households | 11.1 | 4.4 | 14.6 | 5.8 | 3.6 | 32.2 | 437.2 |
| Consumer durables | 4.7 | 1.8 | 2.6 | 1.0 | -2.1 | -45.0 | -257.0 |
| Business services | 27.6 | 10.9 | 25.0 | 9.9 | -2.6 | -9.4 | -316.5 |
| Other activities | 5.7 | 2.2 | 25.2 | 10.0 | 19.5 | 344.9 | 2390.4 |
| 3 TOTAL (1+2) * | 252.4 | 100.0 | 252.8 | 100.0 | 0.3 | 0.1 | |

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

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



Source: Central Bank of Kenya

BANKING SECTOR DEVELOPMENTS

Structure of the Financial System

As at the end of September 2002, the Banking system comprised 46 commercial banks, 3 non-bank financial institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 48 forex bureaus (Table 9). The reduction in the number of institutions from 58 in September 2001 to 55 in September 2002 was due to mergers and the liquidation of one commercial bank.

TABLE 9: COMMERCIAL BANKS, NBFIS & FOREIGN EXCHANGE BUREAUS

| Type of Institution/Bureau | Sep-2001 | Sep-2002 |
|---|----------|----------|
| Commercial Banks | 48 | 46 |
| (a) Operating | 47 | 45 |
| (b) Under Central Bank statutory management | 1 | 1 |
| Building Societies | 4 | 4 |
| Mortgage Finance Companies | 2 | 2 |
| Non-bank Financial Institutions | 4 | 3 |
| (a) Operating | 4 | 3 |
| (b) Under Central Bank statutory management | - | - |
| Total | 58 | 55 |
| Foreign Exchange Bureaus | 47 | 48 |

Source: Central Bank of Kenya

Total Assets and Advances

Total assets of the banking system increased to Ksh 451.2bn at the end of August 2002 from Ksh 426.4bn at the end of August 2001 (Table 10). Total Loans and advances, accounting for 49% of total assets, increased by Ksh 2.1bn to Ksh 252.1bn in August 2002 from Ksh 250.0bn in August 2001.

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

| | August 2001 | August 2002 | Change* | |
|--------------------------|--------------|--------------|-------------|------------|
| | | | Absolute | % |
| ASSETS | 426.4 | 451.2 | 24.8 | 5.8 |
| Loans and Advances | 250.0 | 252.1 | 2.1 | 0.8 |
| Government Securities | 84.1 | 91.6 | 7.5 | 8.9 |
| Balances at Central Bank | 27.7 | 24.4 | 3.3 | -12.0 |
| Fixed Assets | 17.8 | 19.0 | 1.2 | 6.5 |
| Other Assets | 23.7 | 44.4 | 20.7 | 87.3 |

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

Source: Central Bank of Kenya

Asset Quality

At the end of August 2002, the level of non-performing loans (NPLs) was estimated at Ksh 72.9bn or 28.9% of total loans, compared with Ksh 77.5bn or 31.0% of total loans in August 2001 (Table 11). The decline in the ratio of NPLs reflects Ksh 4.6bn drop in non-performing loans. The NPLs were mainly concentrated in seven banks whose ratio of non-performing loans to total loans was 52% compared with only 15% for the rest of the banking sector. The NPLs in the seven banks accounted for Ksh 50.8bn or 69% of the industry's total non-performing loans.

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

| | Aug-01 | Aug-02 |
|--|---------|---------|
| 1. Total Loans | 250.0 | 252.1 |
| 2. Specific Provisions | 30.4 | 28.6 |
| 3. General Provisions | 3.1 | 2.6 |
| 4. Total Provisions (2+3) | 33.5 | 31.2 |
| 5. Net Loans (1-4) | 216.5 | 220.9 |
| 6. Total Non-Performing Loans (NPLs)** | 77.5 | 72.9 |
| 7. Net Non-Performing Loans (6-2) | 47.1 | 44.3 |
| 8. Value of securities (estimated) | 37.5 | 36.1 |
| 9. Net Exposure (7-8) | 9.6 | 8.2 |
| 10. Total NPLs as % of Total Loans (6/1) | 3100.0% | 2890.0% |
| 11. Total Provisions as % of Total Loans (4/1) | 1340.0% | 1240.0% |
| 12. Exposure as % of Total Loans (9/1) | 380.0% | 330.0% |

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

Source: Central Bank of Kenya

Meanwhile, the level of provisions decreased from Ksh 33.5bn to Ksh 31.2bn in August 2002 in line with the decrease in NPLs while estimated value of securities marginally declined from Ksh 37.5bn to Ksh 36.1bn. The extent to which the banking institutions are exposed on net basis consequently decreased to Ksh 8.2bn from Ksh 9.6bn in August 2001.

Other Assets

Government securities held, by banks increased by 8.9% to Ksh 91.6bn in August 2002 from Ksh 84.1bn in August 2001, and accounted for 20% of total assets. Cash deposited with the

Central Bank decreased to Ksh 24.4bn from Ksh 27.7bn and accounted for 5% of total assets.

Deposit Liabilities

Deposits, including interbank deposits and accrued interest, held by banking institutions increased by 8.3% to Ksh 350.9bn in August 2002 from Ksh 324.2bn in August 2001. In terms of market share, the largest eight commercial banks accounted for 72.5% of all deposits in the banking system.

Capital and Reserves

Capital and reserves of the banking system decreased by 3.0% to Ksh 55.9bn in August 2002 from Ksh 57.6bn in August 2001 (Table 12). Total capital, comprising capital and reserves excluding goodwill and 75% of revaluation reserves of the banking system, increased marginally by 1.5% to Ksh 54.4bn in August 2002 from Ksh 53.6bn in August 2001. Consequently, the level of capitalisation as measured by the ratio of total capital to total risk-weighted assets ratio increased to 16.5% at the end of August 2002 from 13.3% at the end of August 2001, which was above the minimum requirement of 12%.

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

| | August | August | Annual Change* | |
|----------------------|--------------|--------------|----------------|------------|
| | 2001 | 2002 | Absolute | % |
| LIABILITIES | 368.8 | 395.3 | 26.5 | 7.2 |
| Deposits** | 324.2 | 350.9 | 26.7 | 8.3 |
| Capital and Reserves | 57.6 | 55.9 | -1.7 | -3.0 |
| Foreign Liabilities | 11.1 | 11.1 | 0.0 | -0.2 |
| Other Liabilities | 33.5 | 33.3 | -0.2 | -0.5 |

*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 of banking institutions decreased by 3.4% to Ksh 5,883m for the eight months ending August 2002 from

Ksh 6,092m for a similar period in 2001. The deterioration in the banking sector profitability was mainly attributed to decline in interest income.

Institutions Under Statutory Management

A scheme of arrangement prepared to revive a bank currently under statutory management of the Central Bank received 81% approval by depositors of the bank. The scheme is now awaiting Court sanction before the bank is re-opened for normal business.

Building Societies

Total assets and deposits of building societies were Ksh 9.2bn and Ksh 7.3bn, respectively, while total advances amounted to Ksh 3.0bn at the end of August 2002. Their income stood at Ksh 892m while their total expenses stood at Ksh 731m, giving a profit before tax of Ksh 161m for the eight months ending August 2002.

Cash and Liquidity Ratios

The banking sector comprising commercial banks and non-bank financial institutions (NBFIs) operated above the statutory 20% minimum liquidity and was within the 10% cash ratio requirements in August and September 2002 (Table 13 and Chart 8).

Liquidity Ratios

In October and September 2002, liquid assets held by commercial banks and NBFIs largely comprised cash balances at the Central Bank, balances with commercial banks both locally and foreign and government securities both in Treasury bills and bonds. The average trends were as follows:

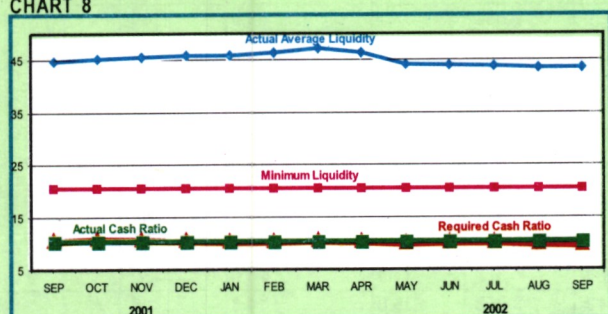
TABLE 13: CASH AND LIQUIDITY RATIOS* (%)

| | 2001 | | | | 2002 | | | | | |
|-------------------------|------|------|------|------|------|------|------|------|------|------|
| | Mar | Jun | Aug | Dec | Jan | Mar | Jun | Jul | Aug | Sep |
| Commercial Banks | | | | | | | | | | |
| Average Liquidity | 44 | 42 | 44 | 46 | 46 | 47 | 44 | 43 | 43 | 43 |
| Minimum Liquidity | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Cash Ratio - All Banks | 10.2 | 10.0 | 9.7 | 9.9 | 9.7 | 9.8 | 9.5 | 9.6 | 9.2 | 9.1 |
| Minimum Cash Ratio** | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| NBFIs | | | | | | | | | | |
| Average Liquidity | 48 | 60 | 75 | 57 | 59 | 59 | 59 | 62 | 63 | 52 |
| Minimum Liquidity | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Cash Ratio | 11.5 | 10.1 | 10.4 | 10.9 | 11.0 | 10.9 | 11.6 | 11.8 | 12.4 | 12.5 |
| Minimum Cash Ratio** | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |

* Monthly average liquidity and cash ratios

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

CHART 8



Source: Central Bank of Kenya

- The average liquidity ratio for commercial banks for September was unchanged at 43% same as in August 2002 while that of NBFIs declined to 52% from 63% in August.
- The average liquidity ratio for mortgage finance companies declined to 26% in September 2002 from 27% in August while that of building societies fell to 48% from 50% over the same period.

Cash Ratios

The average cash ratio maintained by banking institutions decreased to 10.8% in September 2002 compared with 11.0% in August. Commercial banks average cash ratio was 9.1% in September compared with 9.2% in August while the ratio for NBFIs averaged 12.5% compared with 12.7% over the same period.

Second Quarter 2002 Banking Sector Financial Statements and Disclosures

The Central Bank of Kenya now requires banking institutions and building societies to disclose their

unaudited financial results on a quarterly basis in March, June, September and December. This requirement commenced with the June 2002 financial statements and by the end of August 2002, all institutions except one which was in the process of merging with its parent bank, published their results in the print media. The objective of the disclosures is to enable customers of banks make informed decisions about the general soundness of banks, particularly when placing large deposits. Table 14 is an extract from the financial statements and disclosures showing major banking sector performance indicators.

The most important indicator of the strength of a bank is capital, which is measured by the ratio of total capital to total risk weighted assets. This ratio shows the amount of capital a bank holds in relation to the risk of the business being undertaken. Table 14 indicates that the banking sector is generally sound with an actual capital to risk weighted assets ratio of 17.2% compared to the prudential requirement of 12%. As at the end of June 2002, the banking sector had non-performing loans amounting to Ksh 71.6bn or 29.2% of total loans and advances, an improvement compared with Ksh 79.0bn as at end of June 2001. During the quarter ended June 2002, the sector made a profit of Ksh 3.9bn.

Wide differences were, however, observed among institutions regarding capital to risk-weighted assets ratio with some banks not meeting the minimum requirement of 12%. Similarly, there were differences between institutions on other performance indicators of asset quality and profitability levels.

TABLE 14: SECOND QUARTER 2002 BANKING SECTOR PERFORMANCE INDICATORS

| NO. BANKS | CAPITAL ADEQUACY | | ASSET QUALITY | | | | PROFITABILITY | |
|--|--------------------|-------------|------------------|---------------|-------------|------------------|---------------|-------------------|
| | Total Capital (TC) | TC/ TRWA | Total Loans (TL) | NPLs | NPLs/ TL | Provisions/ NPLs | PBT | PBT/ Total Assets |
| | Ksh m | % | Ksh m | Ksh m | % | % | Ksh m | % |
| 1 Barclays Bank of Kenya Ltd. | 9,203 | 15.4 | 49,705 | 5,366 | 10.8 | 26.8 | 1,202 | 1.5 |
| 2 Kenya Commercial Bank Ltd. | 5,442 | 12.9 | 36,319 | 20,676 | 56.9 | 32.3 | -1,164 | -1.9 |
| 3 Standard Chartered Bank Ltd. | 4,610 | 13.7 | 16,677 | 1,470 | 8.8 | 15.9 | 1,653 | 2.9 |
| 4 Citibank, N.A. | 4,048 | 17.2 | 11,134 | 242 | 2.2 | 67.3 | 652 | 2.2 |
| 5 Co-operative Bank of Kenya Ltd. | 3,473 | 22.8 | 17,285 | 6,295 | 36.4 | 55.1 | 134 | 0.6 |
| 6 National Industrial Credit Bank Ltd. | 2,353 | 41.6 | 4,897 | 834 | 17.0 | 63.9 | 160 | 1.9 |
| 7 National Bank of Kenya Ltd. | 2,137 | 9.1 | 26,904 | 13,138 | 48.8 | 61.9 | 82 | 0.3 |
| 8 CFC Bank Ltd. | 1,856 | 22.9 | 5,588 | 219 | 3.9 | 27.7 | 87 | 1.0 |
| 9 Commercial Bank of Africa Ltd. | 1,555 | 23.8 | 4,788 | 526 | 11.0 | 34.1 | 207 | 1.2 |
| 10 First American Bank Ltd. | 1,151 | 30.3 | 3,506 | 912 | 26.0 | 42.5 | 104 | 1.9 |
| 11 Investment & Mortgages Bank Ltd. | 1,098 | 20.6 | 3,885 | 573 | 14.7 | 19.6 | 60 | 0.9 |
| 12 Diamond Trust Bank Kenya Ltd. | 974 | 35.7 | 2,316 | 302 | 13.1 | 31.4 | 38 | 0.6 |
| 13 Development Bank of Kenya Ltd. | 845 | 32.8 | 1,900 | 904 | 47.6 | 35.9 | 38 | 1.2 |
| 14 Credit Agricole Indosuez | 773 | 22.1 | 2,252 | 176 | 7.8 | 100.5 | 38 | 0.8 |
| 15 Transnational Bank Ltd. | 739 | 37.2 | 900 | 377 | 41.9 | 24.9 | 150 | 9.0 |
| 16 Middle East Bank of Kenya Ltd. | 698 | 28.4 | 1,319 | 342 | 25.9 | 14.8 | 26 | 0.8 |
| 17 K-Rep Bank Ltd. | 684 | 63.5 | 876 | 16 | 1.8 | 56.7 | 31 | 2.4 |
| 18 Guardian Bank Ltd. | 652 | 24.5 | 2,665 | 1,306 | 49.0 | 8.5 | 43 | 1.1 |
| 19 Akiba Bank Ltd. | 616 | 15.6 | 3,047 | 748 | 24.5 | 27.2 | 25 | 0.6 |
| 20 Stanbic Bank Kenya Ltd. | 610 | 14.1 | 2,696 | 659 | 24.4 | 40.3 | -49 | -0.7 |
| 21 Imperial Bank Ltd. | 602 | 19.2 | 3,091 | 255 | 8.3 | 72.0 | 85 | 2.2 |
| 22 Consolidated Bank of Kenya Ltd. | 567 | 28.0 | 1,173 | 808 | 68.9 | 35.5 | 3 | 0.1 |
| 23 Fina Bank Ltd. | 537 | 15.5 | 2,993 | 570 | 19.0 | 31.4 | 32 | 0.6 |
| 24 Prime Bank Ltd. | 494 | 17.1 | 1,909 | 159 | 8.3 | 44.3 | 33 | 1.0 |
| 25 Victoria Commercial Bank Ltd. | 488 | 40.8 | 1,373 | 302 | 22.0 | 27.0 | 20 | 0.7 |
| 26 Southern Credit Banking Corp. Ltd. | 439 | 21.5 | 1,800 | 709 | 39.4 | 42.5 | 5 | 0.1 |
| 27 Giro Commercial Bank Ltd. | 405 | 14.2 | 2,930 | 932 | 31.8 | 11.7 | 26 | 0.6 |
| 28 Bank of Baroda Ltd. | 397 | 28.3 | 1,303 | 236 | 18.1 | 16.8 | 28 | 0.7 |
| 29 Biashara Bank of Kenya Ltd. | 396 | 30.2 | 761 | 19 | 2.5 | 63.3 | 25 | 1.0 |
| 30 City Finance Bank Ltd. | 394 | 53.3 | 537 | 338 | 62.9 | 10.0 | 15 | 1.8 |
| 31 Equatorial Commercial Bank Ltd. | 383 | 3.4 | 972 | 197 | 20.3 | 26.2 | 31 | 1.4 |
| 32 African Banking Corporation Ltd. | 380 | 23.9 | 1,210 | 195 | 16.1 | 32.1 | 19 | 0.7 |
| 33 Credit Bank Ltd. | 360 | 43.8 | 687 | 152 | 22.1 | 14.3 | 12 | 0.7 |
| 34 Charterhouse Bank Ltd. | 359 | 20.8 | 1,082 | 81 | 7.5 | 46.3 | 74 | 3.7 |
| 35 Habib AG Zurich | 344 | 34.4 | 625 | 57 | 9.2 | 58.8 | 52 | 1.4 |
| 36 Chase Bank Ltd. | 341 | 51.3 | 696 | 1 | 0.1 | 94.5 | 21 | 1.7 |
| 37 Bank of India Ltd. | 335 | 40.8 | 822 | 62 | 7.6 | 38.2 | 60 | 1.8 |
| 38 Industrial Development Bank Ltd. | 327 | 20.7 | 1,673 | 596 | 35.6 | 54.2 | -59 | -3.1 |
| 39 Habib Bank Ltd. | 322 | 44.4 | 882 | 99 | 11.3 | 80.9 | 63 | 2.0 |
| 40 Dubai Bank Ltd. | 307 | 56.8 | 492 | 49 | 10.0 | 59.2 | 16 | 2.4 |
| 41 Paramount-Universal Bank Ltd. | 270 | 27.8 | 785 | 304 | 38.7 | 30.5 | 1 | 0.1 |
| 42 Fidelity Commercial Bank Ltd. | 246 | 25.4 | 752 | 230 | 30.6 | 39.1 | 18 | 1.6 |
| 43 Euro Bank Ltd. | 104 | 5.7 | 2,053 | 1,727 | 84.1 | 15.1 | 9 | 0.4 |
| 44 Daima Bank Ltd. | 31 | 4.5 | 650 | 476 | 73.2 | 24.1 | -11 | -1.4 |
| 45 Delphis Bank Ltd. | -808 | -64.3 | 2,373 | 1,923.73 | 81.1 | 61.8 | -210 | -13.4 |
| SUB-TOTAL | 51,535 | 17.2 | 232,284 | 65,557 | 28.2 | 40.3 | 3,888 | 0.9% |
| MFCs/NBFIs | | | | | | | | |
| 1 Housing Fin. Co. of Kenya Ltd. | 927 | 10.1 | 9,312 | 5,247 | 56.3 | 24.6 | 30 | 0.3 |
| 2 Savings and Loan (K) Ltd. | 753 | 31.8 | 2,436 | 661 | 27.1 | 25.9 | 7 | 0.2 |
| 3 Prime Capital & Credit Ltd. | 435 | 39.3 | 722 | 118 | 16.4 | 45.6 | 26 | 1.4 |
| 4 Bank of India Finance Ltd. | 238 | 330.2 | 91 | 19 | 20.9 | 0.0 | 23 | 2.5 |
| 5 Devna Finance Ltd. | 59 | 87.0 | 23 | 0.3 | 1.3 | 100.0 | -1 | -0.7 |
| SUB-TOTAL | 2,412 | 18.8 | 12,586 | 6,046 | 48.0 | 25.1 | 86 | 0.5 |
| GRAND TOTAL | 53,948 | 17.2 | 244,870 | 71,603 | 29.2 | 39.0 | 3,974 | 0.9 |

TRWA = Total risk weighted assets
MFCs = Mortgage finance companies
NBFIs = Non-bank financial institutions

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

Source: June 2002 published disclosures

INTEREST RATES

All principal short-term nominal interest rates, except the interest rate on overdraft by commercial banks, continued on a downward trend in the September 2002 quarter (Table 15) as follows:

- After declining to 7.3% in June 2002 from 11.0% in December 2001, the 91-day Treasury bill rate rose to 8.6% in July but declined to 8.3% in August and 7.6% in September 2002. The fall in the 91-day Treasury bill rate reflected excess liquidity in the domestic market, strong competition among the major investors and limited competitive outlets for investment funds.
- The average rate earned on three months time deposits with banks declined to 5.9% in both July and August from 6.1% in June 2002. This rate has been on the decline since December 2001.
- The average savings deposit rate eased from 4% in June 2002 to 3.7% in August as the inter-bank rate fell from 8.2% in June 2002 to 7.3% in September.

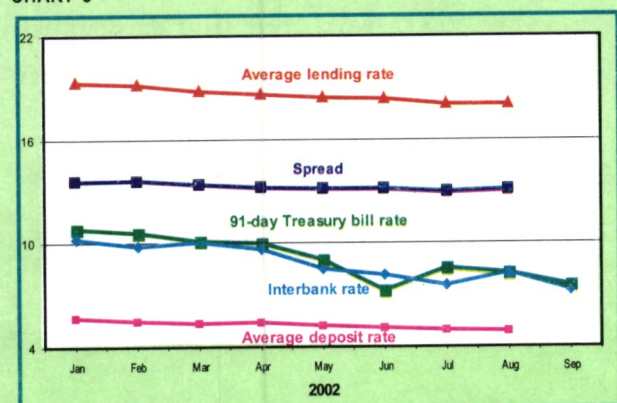
Overall, the average lending rate remained unchanged at 18.1% in August 2002 while the average deposit rate declined marginally to 5.0% from 5.1% over the same period resulting in an interest rate spread of 13.1% in August 2002 from 13.0% in July. The average interest on bank overdraft, however, rose from 18.3% in June to 18.6% in August 2002.

TABLE 15: INTEREST RATES (% per annum)

| | 2001 | | | | 2002 | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|------|------|-----|
| | Jun | Aug | Sep | Dec | Jan | Mar | May | Jun | Jul | Aug | Sep |
| Treasury bill rate* | 12.1 | 12.8 | 12.4 | 11.0 | 10.9 | 10.1 | 9.0 | 7.3 | 8.6 | 8.3 | 7.6 |
| Overdraft rate | 19.7 | 19.7 | 19.6 | 20.0 | 19.3 | 18.8 | 18.7 | 18.5 | 18.3 | 18.6 | |
| Interbank rate | 10.7 | 12.0 | 10.7 | 10.4 | 10.3 | 10.1 | 8.5 | 8.2 | 7.6 | 8.3 | 7.3 |
| Average lending rate (1) | 19.3 | 19.5 | 19.4 | 19.5 | 19.3 | 18.9 | 18.5 | 18.4 | 18.1 | 18.1 | |
| Average deposit rate (2) | 6.4 | 6.2 | 6.3 | 5.7 | 5.7 | 5.4 | 5.3 | 5.2 | 5.1 | 5.0 | |
| 3 - month deposit | 7.5 | 7.6 | 7.4 | 6.9 | 6.9 | 6.9 | 6.2 | 6.1 | 5.9 | 5.9 | |
| Savings rate | 4.4 | 4.4 | 4.9 | 4.4 | 4.4 | 3.7 | 4.0 | 4.0 | 3.9 | 3.7 | |
| Spread (1-2) | 12.9 | 13.3 | 13.2 | 13.8 | 13.6 | 13.4 | 13.2 | 13.2 | 13.0 | 13.1 | |

* 91-Days Treasury bill rate

CHART 9



Source: Central Bank of Kenya

SHILLING EXCHANGE RATE

The Kenya shilling remained stable at Ksh 78.6 against the US dollar but lost to the Sterling Pound and the Euro to exchange at an average of Ksh 115.5 and Ksh 72.2, respectively, during the year to September 2002, compared with Ksh 113.3 and Ksh 79.9 in the year to September 2001 (Table 16 and Chart 10). The shilling however gained against the Japanese Yen and the South African Rand by 6.1% and 24.9%, 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 12.1 compared with Tsh 10.8 in the year to September 2001 but remained stable against the Ugandan shilling to exchange at Ush 22.6 in the year to September 2002, same rate as during the year to September 2001.

In the month of September 2002, the shilling lost against most major international currencies. The shilling lost marginally against the US dollar by 0.3% to trade at an average of Ksh 78.8 compared with an average of Ksh 78.6 in August 2002. The shilling also weakened against the Sterling Pound and the Euro by 1.4% and 0.6%, respectively. Against the Japanese Yen and the South African Rand, the shilling however gained by 1.2% and 0.4%, respectively in September 2002. Against the regional currencies, the shilling lost by 3.8% against the Tanzania shilling to trade at Tsh 12.4 but remained stable against the Uganda shilling to trade at Ush 23.0 in September 2002.

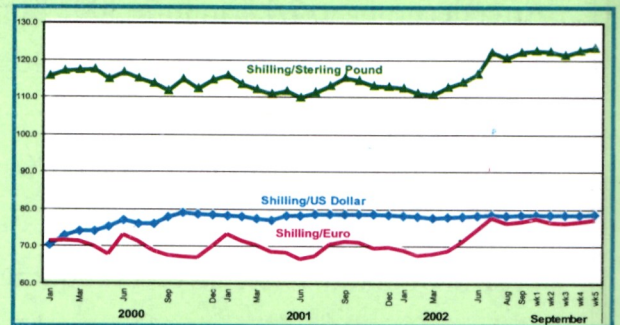
The marginal weakening of the shilling against the US dollar in September 2002 was mainly due to increased demand for foreign exchange in the domestic market mainly from the Central Bank, the corporate and energy sectors relative to foreign exchange inflows mainly from tea and coffee export earnings. The performance of the shilling against the other major international currencies in September 2002 reflected mainly the movement of these currencies against the US dollar in the international currency market. While the US dollar lost against the Pound Sterling and

TABLE 16: SHILLING EXCHANGE RATE

| | 2001 | | | 2002 | | | | | 2002 | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Jul | Sep | Dec | Mar | Jun | Jul | Aug | Sep | wk 1 | wk 2 | wk 3 | wk 4 | wk 5 | Aug |
| US Dollar | 79.0 | 78.9 | 78.7 | 78.1 | 78.7 | 78.9 | 78.6 | 79.0 | 78.8 | 78.7 | 78.8 | 78.9 | 79.0 | 78.8 |
| Pound Sterling | 111.6 | 115.5 | 113.2 | 111.1 | 116.6 | 122.6 | 120.8 | 123.6 | 122.8 | 122.6 | 121.8 | 122.8 | 123.6 | 122.5 |
| 100 Japanese Yen | 63.4 | 66.5 | 61.9 | 59.5 | 63.7 | 66.7 | 66.0 | 65.0 | 66.7 | 65.8 | 64.3 | 64.1 | 64.9 | 65.2 |
| Uganda Shilling* | 21.9 | 22.2 | 21.9 | 22.7 | 22.9 | 22.9 | 23.0 | 23.0 | 22.6 | 23.0 | 23.0 | 23.0 | 23.0 | 22.9 |
| Tanzania Shilling* | 11.3 | 11.3 | 11.6 | 12.4 | 12.2 | 12.0 | 12.8 | 12.3 | 12.3 | 12.4 | 12.4 | 12.4 | 12.3 | 12.4 |
| Euro | 67.8 | 71.9 | 70.2 | 68.5 | 75.1 | 78.3 | 76.9 | 77.7 | 78.0 | 77.1 | 76.7 | 77.2 | 77.7 | 77.3 |
| Nominal Effective Exchange Rate | 80.7 | 79.4 | 80.4 | 82.1 | 79.3 | 77.9 | 78.7 | | | | | | | |
| Real Effective Exchange Rate | 97.6 | 95.2 | 95.9 | 95.3 | 92.3 | 93.1 | 93.6 | | | | | | | |

* Units of currency per Kenya shilling

CHART 10

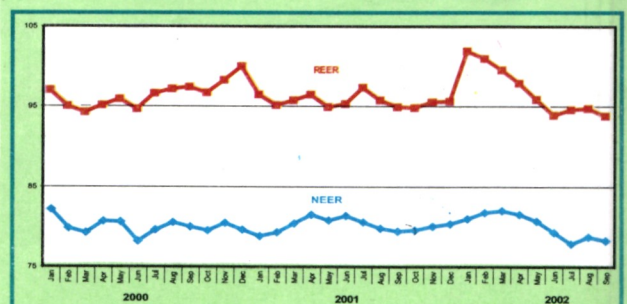


Source: Central Bank of Kenya

the Euro, it gained against the Japanese Yen and the South African Rand.

In nominal effective terms, that is trade-weighted against major partner currencies, the shilling remained stable in the year to September 2002 compared with an appreciation of 1.3% in a similar period to September 2001 (Chart 11). In real terms, however, the shilling appreciated marginally by 0.2% in the year to September 2002 compared with 1.5% appreciation in the year to September 2001. The appreciation in the real effective shilling exchange rate in the year to September 2002 reflected higher domestic inflation relative to inflation in the trading partner currencies.

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



Source: Central Bank of Kenya

BUDGETARY DEVELOPMENTS

Government financial operations over the first two months of fiscal year 2002/03 resulted in a deficit of Ksh 9.7bn on a commitment basis, representing 1.0% of GDP. This was a deterioration compared with a deficit of Ksh 4.5bn or 0.5% of GDP in a similar period in 2001/02 fiscal year (Table 17 and Chart 12). On a cash basis, however, government fiscal performance improved to a deficit of Ksh 11.0bn, from Ksh 11.7bn deficit in the same period in 2001/02 fiscal year.

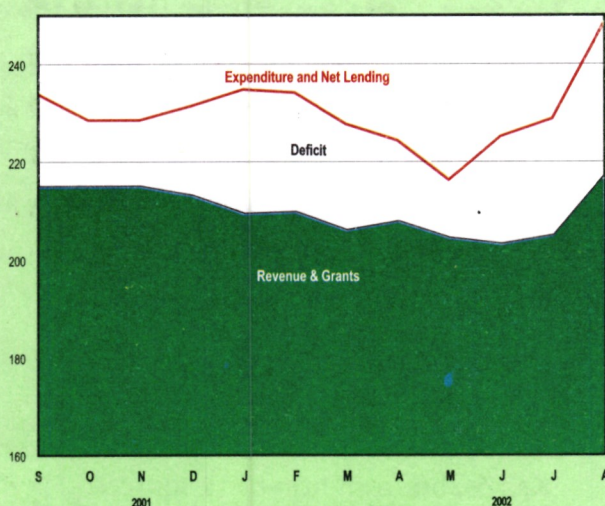
TABLE 17: BUDGET OUT-TURN (KSH BN)

| | FY 2001/02 | | FY 2002/03 | | Over(+)/ Below (-) |
|---|------------------|-------------------|------------|---------|-----------------------|
| | August Actual | August Actual* | Target | Actual* | |
| 1. TOTAL REVENUE & GRANTS | 29.9 | 30.1 | 39.1 | -9.1 | |
| Revenue | 28.3 | 28.4 | 36.5 | -8.1 | |
| Tax Revenue | 24.3 | 24.6 | 31.2 | -6.6 | |
| Non Tax Revenue | 1.8 | 2.1 | 2.5 | -0.3 | |
| Appropriations-in-Aid | 2.3 | 1.7 | 2.8 | -1.1 | |
| External Grants | 1.5 | 1.7 | 2.6 | -1.0 | |
| 2. TOTAL EXPENDITURE AND NET LENDING | 34.3 | 39.8 | 44.4 | -4.7 | |
| Recurrent Expenditure | 30.8 | 34.4 | 36.4 | -2.0 | |
| Development Expenditure | 3.5 | 5.3 | 8.0 | -2.7 | |
| 3. DEFICIT ON A COMMITMENT BASIS (1-2) | -4.5 | -9.7 | -5.3 | -4.4 | |
| | (-0.5) | (-1.0) | (-0.5) | | |
| 4. ADJUSTMENT TO CASH BASIS | -7.3 | -1.3 | 0.0 | -1.3 | |
| 5. DEFICIT ON A CASH BASIS | -11.7 | -11.0 | -5.3 | -5.7 | |
| | (-1.3) | (-1.1) | (-0.5) | | |
| 6. DISCREPANCY: Expenditure (+) / Revenue (-) | -3.4 | -0.2 | -0.6 | -0.3 | |
| 7. FINANCING | 8.4 | 10.7 | 4.7 | 6.0 | |
| Domestic (Net) | 9.6 | 11.2 | 5.4 | 5.8 | |
| External (Net) | -1.3 | -0.5 | -0.7 | 0.2 | |
| Capital Receipts (privatisation) | 0.0 | 0.0 | 0.6 | -0.6 | |

* Provisional

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

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



Sources: Treasury and Central Bank of Kenya

Revenue and Grants

The government receipts amounted to Ksh 30.1bn during the two months of fiscal year 2002/03 compared with Ksh 29.9bn in a similar period in 2001/02 fiscal year (Table 18).

TABLE 18: COMPOSITION OF GOVERNMENT REVENUE (KSH BN)

| | Aug-01 Ksh bn | Share % | Aug-02 Ksh bn | Share % |
|-----------------------------|------------------|--------------|------------------|--------------|
| 1. Revenue (2+3+4) | 28.3 | 94.9 | 28.4 | 94.4 |
| 2. Tax Revenue | 24.3 | 81.3 | 24.6 | 81.8 |
| Income Tax | 7.2 | 24.0 | 7.9 | 26.4 |
| Value Added Tax | 8.2 | 27.4 | 8.0 | 26.6 |
| Import Duty | 4.4 | 14.8 | 3.2 | 10.7 |
| Excise Duty | 4.5 | 15.1 | 5.4 | 18.1 |
| 3. Appropriations-in-Aid | 2.3 | 7.6 | 1.7 | 5.6 |
| 4. Other Revenue | 1.8 | 6.0 | 2.1 | 7.0 |
| 5. External Grants | 1.5 | 5.1 | 1.7 | 5.6 |
| TOTAL RECEIPTS (1+5) | 29.9 | 100.0 | 30.1 | 100.0 |

Source: Treasury

Revenues from taxes were Ksh 24.6bn or 81.8% of total government receipts, representing Ksh 0.3bn increase over tax collections in the first two months of the 2001/02 fiscal year. The various tax collections were as follows:

- Income tax collections were Ksh 7.9bn or 32.1% of tax revenue, compared with Ksh 7.2bn in the same period last year.
- Value added tax (VAT) receipts declined by Ksh 0.2bn to Ksh 8.0bn from Ksh 8.2bn collected in a similar period last year. VAT contributed 32.5% of total tax revenue.
- Import and excise duty receipts decreased to Ksh 8.6bn from Ksh 8.9bn in a similar period in the last fiscal year. Of these, import and excise duty amounted to Ksh 3.2bn and Ksh 5.4bn, respectively.

Other government receipts were as follows:

- Non tax revenue of Ksh 2.1bn compared with Ksh 1.8bn in a similar period last year;
- User charges, fees and other levies amounting to Ksh 1.7bn down from Ksh 2.3bn in a similar period in the last fiscal year; and
- External grants amounted to Ksh 1.7bn, which was Ksh 0.2bn higher than Ksh 1.5bn. received in the previous fiscal year.

12.5bn or 36.3% of total expenditure in the previous year.

- Other expenditures amounting to Ksh 15.3bn, comprising mainly expenditures on operations and maintenance. This was Ksh 2.4bn higher than in a similar period last year.
- Development expenditure amounting to Ksh 5.3bn, representing Ksh 1.8bn increase over a similar period in 2001/02. At this level, development expenditure represented 13.4% of total government expenditure, up from 10.3% last year.

Expenditure and Net Lending

Government expenditure in the first two months of 2002/03 fiscal year amounted to Ksh 39.8bn or Ksh 5.5bn higher than in the same period in the previous fiscal year (Table 19). The expenditure comprised the following:

- Recurrent expenditure of Ksh 34.4bn, representing 86.4% of total expenditure, compared with Ksh 30.8bn or 89.8% of expenditure in the last fiscal year. Major items of recurrent expenditure were as follows:

- Interest payments amounting to Ksh 6.3bn, Ksh 0.9bn higher than in the same period last year. These represented 15.7% of total expenditure, the same proportion as in the previous year. Interest on domestic and foreign debt was Ksh 5.1bn and Ksh 1.2bn, respectively.
- Expenditure on salaries and wages amounting to Ksh 12.9bn or 32.3% of total expenditure, compared with Ksh

TABLE 19: COMPOSITION OF GOVERNMENT EXPENDITURE (KSH BN)

| | Aug-01 Ksh bn | Share % | Aug-02 Ksh bn | Share % |
|--------------------------|------------------|--------------|------------------|--------------|
| Salaries & Wages | 12.5 | 36.3 | 12.9 | 32.3 |
| Total Interest | 5.4 | 15.7 | 6.3 | 15.7 |
| Domestic* | 3.8 | 11.0 | 5.1 | 12.8 |
| Foreign | 1.6 | 4.7 | 1.2 | 2.9 |
| Development | 3.5 | 10.3 | 5.3 | 13.4 |
| Others | 12.9 | 37.6 | 15.3 | 38.5 |
| TOTAL EXPENDITURE | 34.3 | 100.0 | 39.8 | 100.0 |

*Includes commission and other charges paid to CBK

Source: Treasury

Financing

The budgetary performance in the first two months of fiscal year 2002/03 resulted into a borrowing requirement of Ksh 12.3bn. This was Ksh 6.7bn lower than in a similar period in 2001/02 fiscal year (Table 20). The borrowing was wholly from domestic sources and comprised the following:

- Ksh 2.8bn from the Central Bank;
- Ksh 5.2bn from the commercial banks; and
- Ksh 4.2bn from non-bank sources.

The borrowed funds were used to make a net repayment of Ksh 0.5bn to external creditors, increase government deposits at the Central Bank by Ksh 1.0bn, and finance a Ksh 10.7bn budget deficit.

TABLE 20: GOVERNMENT FINANCING REQUIREMENTS & SOURCES (KSH BN)

| I. FINANCING REQUIREMENTS | Aug-01 | Share | Aug-02 | Share |
|---|-------------|--------------|-------------|--------------|
| | Ksh bn | % | Ksh bn | % |
| 1. Budget deficit | 8.4 | 44.0 | 10.7 | 87.2 |
| 2. External debt reduction | 1.3 | 6.7 | 0.5 | 4.3 |
| 3. Domestic debt reduction | 9.4 | 49.4 | 0.0 | 0.0 |
| 3.1 Central Bank (incl. items in transit) | 9.4 | 49.4 | 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 | 1.0 | 8.5 |
| TOTAL | 19.0 | 100.0 | 12.3 | 100.0 |

| II. FINANCING SOURCES | Aug-01 | Share | Aug-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 | 13.8 | 72.5 | 12.3 | 100.0 |
| 3.1 Central Bank | 0.0 | 0.0 | 2.8 | 23.0 |
| 3.2 Commercial banks | 10.0 | 52.5 | 5.2 | 42.7 |
| 3.3 Non-bank sources | 3.8 | 19.9 | 4.2 | 34.3 |
| 4. Reduction in GoK deposits at CBK | 5.2 | 27.5 | 0.0 | 0.0 |
| 5. Privatisation proceeds | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL | 19.0 | 100.0 | 12.3 | 100.0 |

Sources: Treasury & Central Bank of Kenya

- Ksh 8.1bn increase in the use of the overdraft facility at the Bank by the Government;
- Ksh 5.0bn decline in cleared items awaiting debiting to the Paymaster General account; and
- Ksh 0.2 decline in the Bank's holdings of rediscounted government securities.

TABLE 21: GOVERNMENT GROSS BORROWING FROM THE CENTRAL BANK (KSH BN)

| | 2002 | | Movement |
|--|-------------|-------------|------------|
| | June | August | |
| Total Government Credit (1+2+3+4+5) | 44.9 | 47.7 | 2.8 |
| 1. Overdraft | 0.0 | 8.1 | 8.1 |
| 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 lent to Government | 2.1 | 2.1 | 0.0 |
| 5. Cleared items in transit | 5.7 | 0.6 | -5.0 |
| Memorandum | | | |
| Authorised overdraft limit | 8.8 | 8.8 | 0.0 |
| Amount utilised to date | 0.0 | 8.1 | 8.1 |
| Amount available | 8.8 | 0.7 | -8.1 |

Source: Central Bank of Kenya

Government Borrowing from the Central Bank

Government net borrowing from the Central Bank in the first two months of the 2002/03 fiscal year amounted to Ksh 2.8bn compared with a net repayment of Ksh 9.4bn over a similar period in the previous fiscal year (Table 21). The stock of government indebtedness to the Bank therefore stood at Ksh 47.7bn as at the end of August 2002 from Ksh 44.9bn in June 2002.

The Ksh 2.8bn net borrowing was as a result of the following transactions:

Overall Debt

Public debt stood at Ksh 623.9bn at end August 2002. This represented 63.4% of GDP and was Ksh 10.1bn higher than the debt stock in June 2002 (Table 22). Domestic debt was Ksh 247.2bn or 39.6% of the total stock while foreign debt amounted to Ksh 376.8bn, or 60.4% of the total debt stock.

TABLE 22: KENYA'S PUBLIC DEBT (KSH BN)

| | Jun-01** | Jun-02** | Aug-02** | Change 2002/03 |
|--------------------------|--------------|--------------|--------------|-------------------|
| EXTERNAL*** | | | | |
| Bilateral | 132.3 | 115.4 | 115.0 | -0.4 |
| Multilateral | 228.5 | 224.7 | 224.4 | -0.4 |
| Commercial Banks | 29.4 | 33.9 | 33.6 | -0.3 |
| Export Credit | 3.8 | 3.8 | 3.8 | 0.0 |
| Sub-Total | 394.0 | 377.8 | 376.8 | -1.1 |
| (As a % of GDP) | 46.6 | 41.1 | 38.3 | -2.8 |
| DOMESTIC | | | | |
| Banks | 109.2 | 120.8 | 127.8 | 7.0 |
| Central Bank | 47.2 | 42.8 | 45.7 | 2.8 |
| Commercial Banks | 62.0 | 78.0 | 82.1 | 4.1 |
| Non-banks | 93.4 | 104.4 | 108.7 | 4.3 |
| Non-bank Financial Inst. | 3.9 | 2.8 | 3.4 | 0.6 |
| Other Non-bank Sources | 89.6 | 101.5 | 105.3 | 3.8 |
| Non-residents | 9.2 | 10.8 | 10.7 | -0.1 |
| Sub-Total | 211.8 | 236.0 | 247.2 | 11.2 |
| (As a % of GDP) | 25.0 | 25.6 | 25.1 | -0.5 |
| GRAND TOTAL | 605.8 | 613.8 | 623.9 | 10.1 |
| (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

Domestic Debt

The stock of domestic debt increased to Ksh 247.2bn as at end August 2002 from Ksh 236bn in June 2002 and Ksh 211.8bn in June 2001 (Tables 23 and 24). The Ksh 11.2bn net increase in the stock of debt in the first two months of fiscal year 2002/03 was through holdings of government securities, which rose by Ksh 8.1bn from Ksh 226.8bn in June 2002 to Ksh 234.9bn in August 2002. In addition, other

TABLE 23: GOVERNMENT DOMESTIC DEBT (KSH BN)

| | 2001 | | | | | 2002 | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan | Jun | Aug | Sep | Dec | Jan | Mar | Jun | Jul | Aug |
| Total stock of Domestic Debt (A+B) | 193.3 | 211.8 | 214.8 | 219.2 | 222.0 | 222.7 | 229.2 | 236.0 | 242.1 | 247.2 |
| A. Government Securities | 183.0 | 199.3 | 211.8 | 215.7 | 215.5 | 219.5 | 225.4 | 226.8 | 233.3 | 234.9 |
| 1. Treasury Bills (excluding Repo Bills) | 112.3 | 116.4 | 117.5 | 116.9 | 96.8 | 93.1 | 94.3 | 82.1 | 84.5 | 86.7 |
| Banking institutions | 48.3 | 50.7 | 53.9 | 55.7 | 45.3 | 38.4 | 41.2 | 30.5 | 32.2 | 33.7 |
| Others | 64.0 | 65.8 | 63.6 | 61.2 | 51.5 | 54.7 | 53.1 | 51.5 | 52.3 | 53.0 |
| 2. Treasury Bonds | 32.4 | 44.5 | 56.9 | 60.5 | 80.3 | 88.0 | 92.7 | 106.3 | 110.4 | 109.8 |
| Banking institutions | 10.3 | 13.1 | 18.0 | 22.0 | 32.8 | 37.7 | 40.0 | 47.1 | 50.7 | 48.3 |
| Others | 22.1 | 31.4 | 37.9 | 38.5 | 47.5 | 50.3 | 52.7 | 59.2 | 59.7 | 61.5 |
| 3. Long term Stocks | 1.5 | 1.5 | 1.5 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Banking institutions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 1.5 | 1.5 | 1.5 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| 4. Non-interest bearing debt | 36.9 | 36.9 | 36.9 | 36.9 | 36.9 | 36.9 | 36.9 | 36.9 | 36.9 | 36.9 |
| Of which: Repo TBills | 22.0 | 21.1 | 27.0 | 27.0 | 27.0 | 27.0 | 27.0 | 36.0 | 36.0 | 33.0 |
| B. Others | 10.3 | 12.5 | 3.0 | 3.5 | 6.5 | 3.2 | 3.8 | 9.2 | 8.8 | 12.3 |
| Of which CBK overdraft to Government | 7.4 | 2.9 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 4.4 | 8.1 |

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

Source: Central Bank of Kenya

TABLE 24: ANALYSIS OF DOMESTIC DEBT (KSH BN)

| | Jun-02 | Aug-02 | Change |
|---|--------------|--------------|-------------|
| Government securities | 226.8 | 234.9 | 8.1 |
| Treasury Bills* | 82.1 | 86.7 | 4.6 |
| Treasury Bonds | 106.3 | 109.8 | 3.5 |
| Of which: special bonds | 6.4 | 5.5 | -0.8 |
| Government Stock | 1.5 | 1.5 | 0.0 |
| Non-interest bearing debt | 36.9 | 36.9 | 0.0 |
| Others** | 9.2 | 12.3 | 3.1 |
| Of which: Overdraft at the Central Bank | 0.0 | 8.1 | 8.1 |
| Total Stock of Domestic Debt | 236.0 | 247.2 | 11.2 |

* Excludes REPO Treasury bills

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

Source: Central Bank of Kenya

forms of debt increased by Ksh 3.1bn mainly being the overdraft at the Central Bank, which increased by Ksh 8.1bn. The increase in the overdraft at the Bank was, however, partially offset by a decline of Ksh 0.2bn in the Bank's holdings of rediscounted government securities, and Ksh 5.0bn decline in un-cleared items on transit to the Pay Master General account.

Treasury Bills

The outstanding stock of Treasury bills increased to Ksh 86.7bn in August 2002 from Ksh 84.5bn and Ksh 82.1bn in July and June 2002, respectively (Table 24 and chart 13). The distribution of the Ksh 86.7bn outstanding stock of Treasury bills among various investors was as follows:

- Banking institutions held Ksh 33.7bn or 38.9% of the bills. Of this, the commercial banks and non-bank financial institutions held Ksh 32.3bn and Ksh 1.4bn worth of bills, respectively.
- Ksh 53bn or 61.1% of the bills were held by the non-bank sector comprising insurance companies, parastatals, individuals and other corporate entities.

Treasury Bonds

The outstanding stock of Treasury bonds increased to Ksh 109.8bn in August 2002 from Ksh 106.3bn in June 2002, respectively. The increase followed the issuing of bonds worth Ksh 14.1bn and redemption of Ksh 10.6bn worth of bonds in July and August 2002.

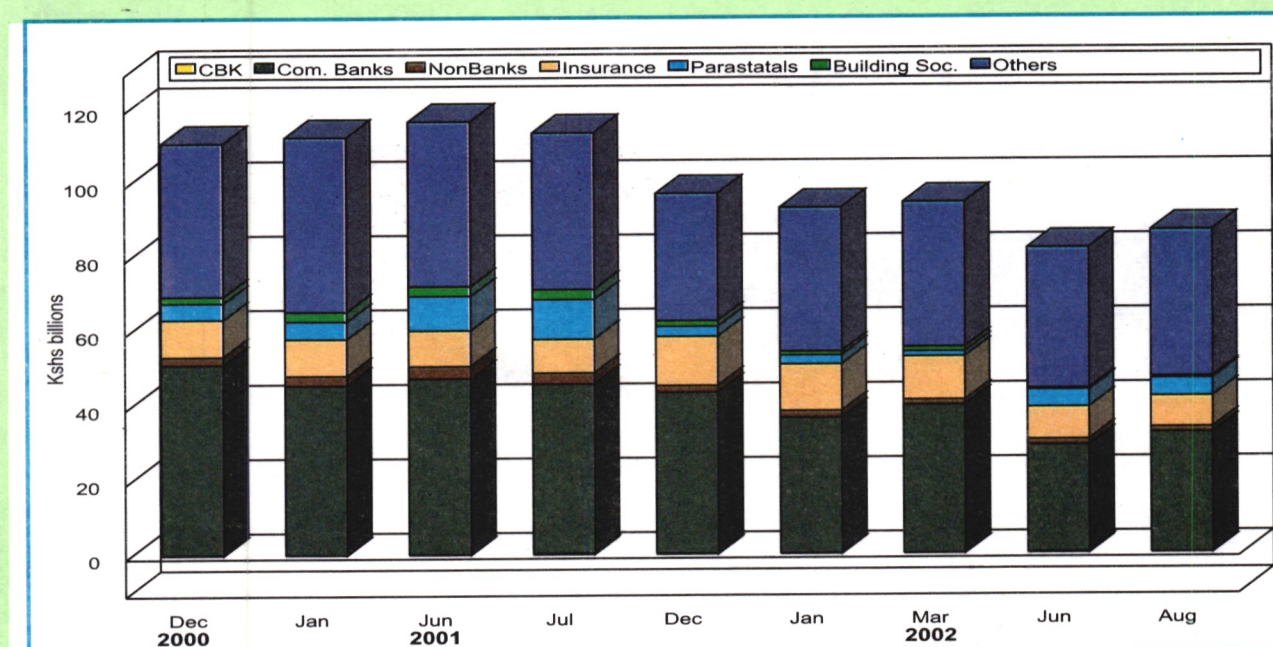
Holdings of the outstanding stock of Treasury bonds by various investors was as follows:

TABLE 25: OUTSTANDING TREASURY BILLS BY HOLDER (KSH BN)

| Holders | 2001 | | | | | | 2002 | | | | | |
|----------------------|--------------|--------------|--------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|
| | Jan | % | Aug | % | Dec | % | Jan | % | Jun | % | Aug | % |
| Banking Institutions | 48.3 | 43.0 | 53.9 | 45.9 | 45.3 | 46.8 | 38.4 | 41.3 | 30.5 | 37.2 | 33.7 | 38.9 |
| Central Bank | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.1 | 0.1 | 0.3 | 0.3 | 0.0 | 0.0 |
| Comm. Banks | 45.6 | 40.6 | 50.8 | 43.3 | 43.3 | 44.7 | 36.5 | 39.2 | 28.7 | 35.0 | 32.3 | 37.2 |
| NBFIs | 2.6 | 2.3 | 3.0 | 2.6 | 1.8 | 1.8 | 1.8 | 1.9 | 1.5 | 1.9 | 1.4 | 1.7 |
| Insurance Companies | 9.8 | 8.7 | 9.3 | 7.9 | 13.1 | 13.5 | 12.5 | 13.5 | 8.7 | 10.6 | 8.3 | 9.6 |
| Parastatals | 4.7 | 4.2 | 10.9 | 9.2 | 2.7 | 2.7 | 2.4 | 2.6 | 4.6 | 5.6 | 4.8 | 5.5 |
| Of which: NSSF | 0.8 | 0.7 | 0.1 | 0.1 | 0.5 | 0.5 | 0.8 | 0.9 | 1.1 | 1.4 | 1.0 | 1.1 |
| Building Societies | 2.6 | 2.3 | 2.6 | 2.2 | 1.5 | 1.6 | 1.0 | 1.1 | 0.4 | 0.5 | 0.5 | 0.5 |
| Others | 46.9 | 41.8 | 40.8 | 34.7 | 34.3 | 35.4 | 38.7 | 41.6 | 37.8 | 46.1 | 39.4 | 45.4 |
| Total* | 112.3 | 100.0 | 117.5 | 100.0 | 96.8 | 100.0 | 93.1 | 100.0 | 82.1 | 100.0 | 86.7 | 100.0 |

* Excludes repurchase order bills

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



Source: Central Bank of Kenya

- Commercial banks held bonds worth Ksh 46.4bn;
- Non-bank financial institutions held Ksh 2.0bn worth of bonds; and
- Other investors, including parastatals, held bonds worth Ksh 61.5bn.

Government Long Term Stocks

The outstanding government long-term stocks as at end August 2002 was Ksh 1.5bn, unchanged from June 2002. Of the Ksh 1.5bn outstanding stocks, the National Social Security Fund (NSSF) held Ksh 0.8bn worth of stocks while the balance of Ksh 0.7bn was held by the non-bank sector.

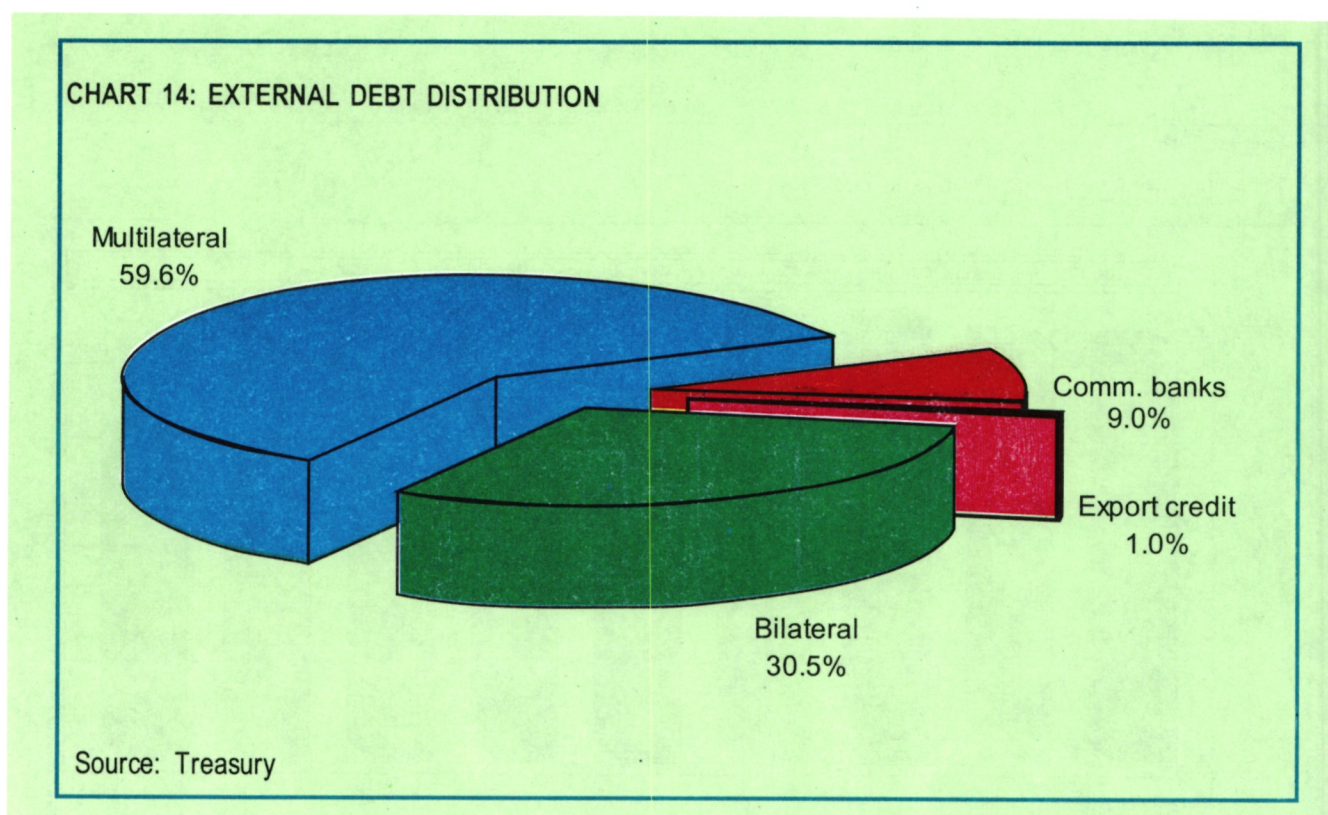
External Public Debt

Kenya's external public debt declined marginally in the first two months of the 2002/03 fiscal year

from Ksh 377.8bn as at end June 2002 to Ksh 376.8bn in August 2002. As a proportion of GDP, external debt declined to 38.3% in August 2002 from 41.1% in June 2002. The Ksh 1.1bn net reduction in external debt arose from:

- Repayment of Ksh 2.9bn to external creditors.
- Disbursements of Ksh 2.1bn from bilateral and multilateral creditors.
- Decrease of Ksh 0.3bn in external debt stock in shilling terms owing to appreciation of the shilling.

Multilateral debt accounted for Ksh 224.4bn or 59.6% of the debt stock while bilateral debt stood at Ksh 115bn or 30.5% of the stock. Commercial loans and export credit accounted for Ksh 33.6bn and Ksh 3.8bn or 8.9% and 1.0% of the debt stock, respectively (Chart 14).



BALANCE OF PAYMENTS

The overall balance of payments position recorded a surplus of US\$ 96m in the year to August 2002 compared with a deficit of US\$ 66m in the year to July 2001. The improvement in the overall position was attributed to the increase in the capital and financial account. The current account deficit however widened during this period (Table 26 and Chart 15).

Current Account

The current account deficit widened to US\$ 308m in the year to August 2002 from US\$ 137m in the previous year. The deterioration in the current account was attributed to a decline in the services account surplus by 39.0% which more than offset the 24.3% reduction in the trade deficit. The decline in transfer inflows and increase in net income payments also contributed to the reduction in the services surplus.

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

| | Year to Aug 2001 | Quarters in Year to August 2002 | | | | Year to Aug 2002** |
|--|------------------------|---------------------------------|-----------------------|-----------------------|-------------------------|--------------------------|
| | | Q1 Sep-Nov 2001 | Q2 Dec-Feb 2001 | Q3 Mar-May 2002 | Q4 Jun-Aug** 2002 | |
| OVERALL BALANCE | -66 | -29 | 40 | 57 | 28 | 96 |
| I. CURRENT ACCOUNT | -137 | -213 | -51 | -50 | 5 | -308 |
| Merchandise | -1532 | -480 | -199 | -232 | -249 | -1159 |
| Exports (fob) | 1909 | 424 | 489 | 553 | 542 | 2007 |
| Coffee | 114 | 18 | 12 | 32 | 15 | 77 |
| Tea | 462 | 88 | 109 | 114 | 86 | 396 |
| Horticulture | 255 | 44 | 71 | 71 | 79 | 264 |
| Oil products | 173 | 41 | 28 | 14 | 17 | 101 |
| Other | 905 | 233 | 268 | 322 | 346 | 1169 |
| Imports (cif) | 3441 | 904 | 688 | 785 | 790 | 3167 |
| Oil | 845 | 164 | 116 | 182 | 148 | 610 |
| Chemicals | 467 | 119 | 127 | 126 | 131 | 502 |
| Manufactured goods | 427 | 103 | 89 | 104 | 96 | 392 |
| Machinery & transport equipment | 743 | 260 | 173 | 217 | 174 | 824 |
| Other | 959 | 258 | 182 | 156 | 242 | 838 |
| Services | 1395 | 267 | 148 | 182 | 254 | 851 |
| Non-factor services (net) | 617 | 134 | 84 | 118 | 191 | 526 |
| Of which: tourism receipts | 294 | 73 | 67 | 68 | 65 | 273 |
| Income (net) | -124 | -30 | -46 | -35 | -36 | -148 |
| Of which: official interest income | -118 | -25 | -34 | -34 | -36 | -129 |
| Current Transfers | 902 | 164 | 110 | 100 | 99 | 473 |
| Private (net) | 752 | 142 | 92 | 83 | 82 | 399 |
| Public (net) | 150 | 22 | 18 | 16 | 17 | 74 |
| II. CAPITAL & FINANCIAL ACCOUNT | 70 | 184 | 91 | 107 | 22 | 404 |
| Capital Transfers (net) | 61 | 17 | 19 | 19 | 17 | 72 |
| Financial Account | 10 | 167 | 72 | 88 | 5 | 331 |
| Official, medium- & long-term | -213 | -86 | -30 | -36 | -16 | -168 |
| Inflows | 286 | 43 | 48 | 50 | 42 | 184 |
| Outflows | -500 | -130 | -78 | -87 | -58 | -352 |
| Private, medium- & long-term (net) | 62 | 88 | -13 | -34 | -30 | 11 |
| Commercial banks (net) | -43 | 86 | -21 | -5 | -49 | 12 |
| Other private, medium- & long-term (net) | 104 | 1 | 8 | -29 | 19 | -1 |
| Short term and errors & omissions (net) | 162 | 165 | 114 | 158 | 51 | 488 |
| Gross Reserves | 1469 | 1391 | 1450 | 1496 | 1570 | 1570 |
| Official | 1004 | 1011 | 1057 | 1101 | 1119 | 1119 |
| in months of goods and non-factor services | 3.3 | 3.3 | 3.6 | 3.8 | 3.8 | 3.8 |
| Commercial Banks | 466 | 380 | 393 | 395 | 451 | 451 |

* Revised to reflect the new BOP presentation format

** Provisional

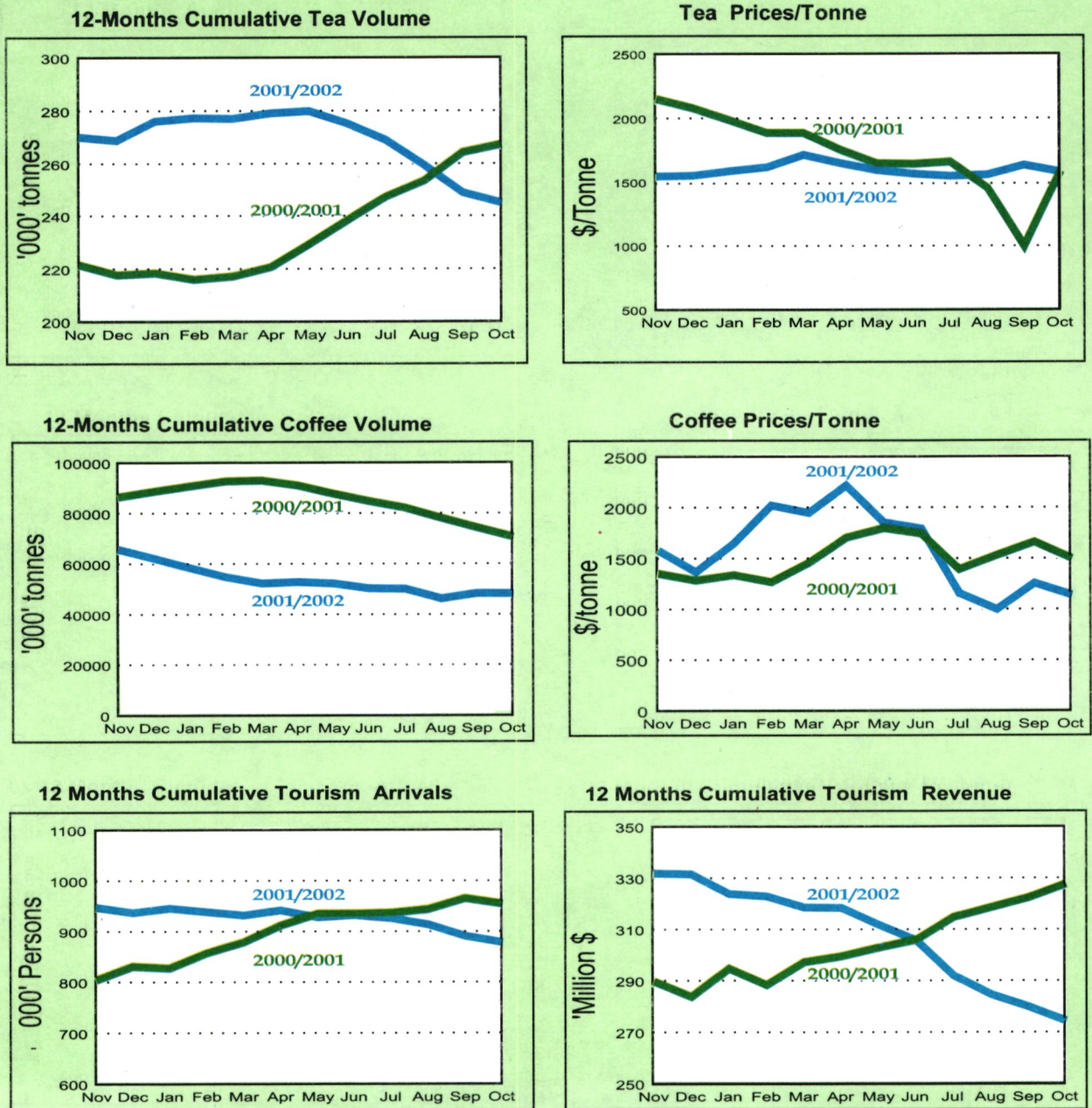
Source: Central Bank of Kenya

Merchandise

The merchandise account deficit narrowed to US\$ 1,159m in the year to August 2002 from US\$ 1,532m in the year to August 2001. This performance was mainly due to decline in imports by US\$ 274m and a growth of US\$ 98m in export earnings. All categories of imports fell except

chemicals and machinery and transport equipment. The increase in the export earnings was attributed to rise in receipts from horticulture and non-traditional exports. Receipts from traditional exports, particularly tea and coffee however declined following reduced export volumes and prices.

CHART 15: TRENDS IN PRICES & VOLUMES OF MAJOR EXPORTS



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

Services

The surplus in the services account declined to US\$ 851m from US\$ 1,395m in the year to August 2001. The decline in the services account surplus was caused by a reduction in grant inflows to both the private and public sectors by US\$ 429m and an increase in net income outflows by US\$ 24m.

Capital and Financial Account

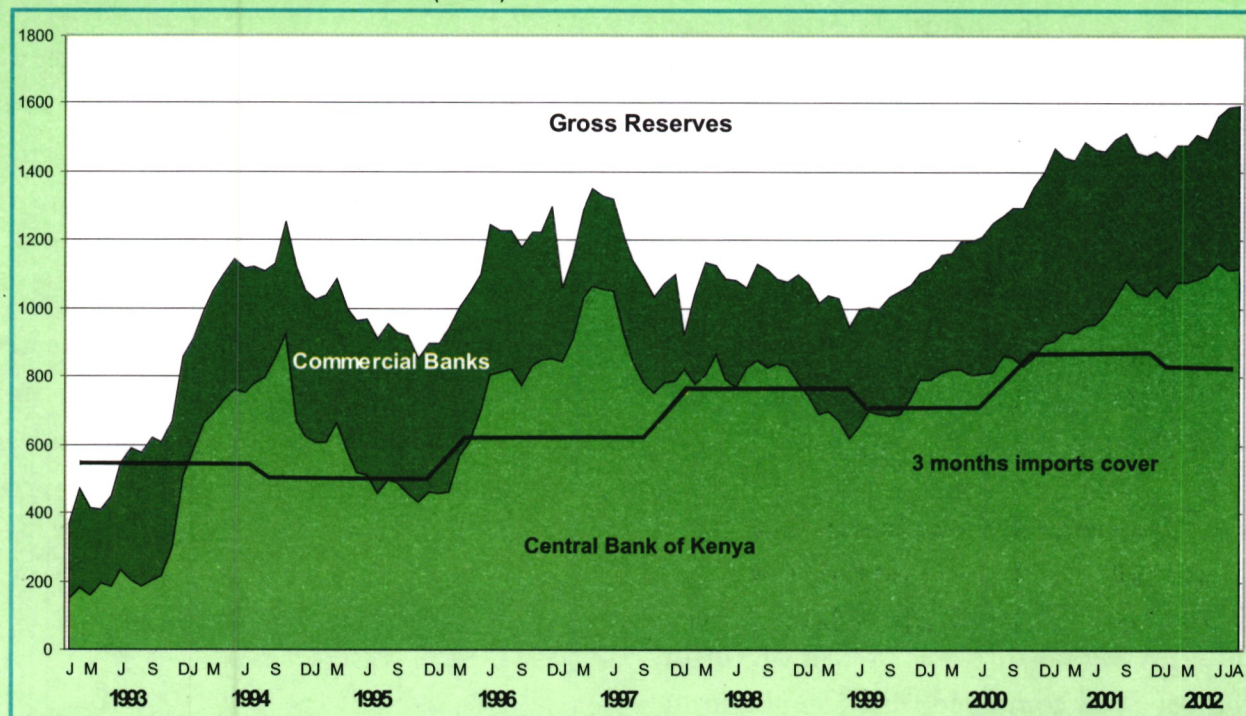
The capital and financial account surplus increased to US\$ 404m in the year to August 2002 from US\$ 70m in a similar period of the previous year. This was mainly due to a decline in official outflows from US\$ 500m to US\$ 352m and an increase to US\$ 488m in short-term capital inflows (including errors and omissions) from US\$ 162m. Private medium and long-term capital flows however declined to US\$ 11m in the year

to August 2002 compared to a net inflow of US\$ 62m in the previous year.

Foreign Exchange Reserves

Following the improvement in the overall balance of payments position, official foreign exchange reserves increased to US\$ 1,119m, equivalent to 3.8 months of imports of goods and non-factor services at end of August 2002 compared with US\$ 1,004m or 3.3 months of import cover in August 2001 (Chart 16). Foreign exchange reserves of commercial banks, however, decreased from US\$ 466m at end of August 2001 to US\$ 451m at the end of August 2002. Foreign exchange reserves held by the banking system therefore stood at US\$ 1,570m at the end of August 2002 compared with US\$ 1,469m at end of August 2001.

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



Source: Central Bank of Kenya

STOCK MARKET

Activity at the Nairobi Stock Exchange (NSE) improved in September 2002 compared with August with increased turnover at all the counters. The main developments at the three counters were as follows:

Equities Market

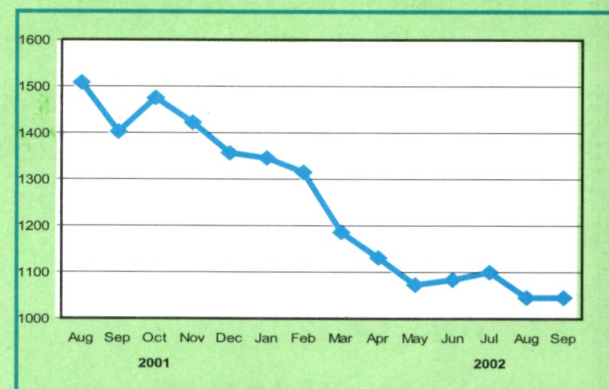
Trading at the equities market increased in September 2002 with leading market indicators increasing as follows:

- The NSE share index increased marginally to 1043.4 from 1043.38 in August 2002;
- Market capitalization increased by 0.4% to Ksh 85.8bn;
- Total outstanding shares in September remained at 4.3bn recorded in August 2002.
- The number of shares traded increased by 43.8% to 12.2m shares while the value of shares traded increased by 36.4% to Ksh 310.9m.
- Reflecting the above developments, the turnover ratio, being the value of shares traded to market capitalization increased to 0.36% from 0.27% in August, while average value per transaction rose by 45.9% to Ksh 158,931.

Foreign Investors Board

Activity at the Foreign Investors Board increased, resulting in a total turnover of Ksh 81.4m in September 2002 compared with Ksh 30.9m in

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



Source: Nairobi Stock Exchange

the previous month. The turnover increase of Ksh 81.4m comprised Ksh 49m in foreign capital inflows and Ksh 1.5m in foreign capital outflows. The foreign capital inflows was largely to the industrial and allied sector.

The Bond Market

The turnover at the bond market, which has maintained an upward trend since May 2002, rose by 16% or Ksh 566m in September from Ksh 3.5bn in August 2002. Trading in September 2002 was dominated by government Treasury bonds, which accounted for Ksh 4.0bn of total turnover as corporate bonds amounted to Ksh 0.1bn.

The average yield on bonds traded in September 2002 increased to 11.97% in September from 11.27% in August, reflecting the high yields on the fixed rate Treasury bonds traded during the month.

REAL SECTOR

Introduction

The economy has been on a recovery path since 2001 largely due to favourable weather conditions, which has increased agricultural production and supported economic activities in other sectors. The pace of economic recovery has, however, been sluggish mainly due to inefficient infrastructure and reduced investor confidence partly caused by the uncertainties associated with the outcome of the forthcoming general elections.

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

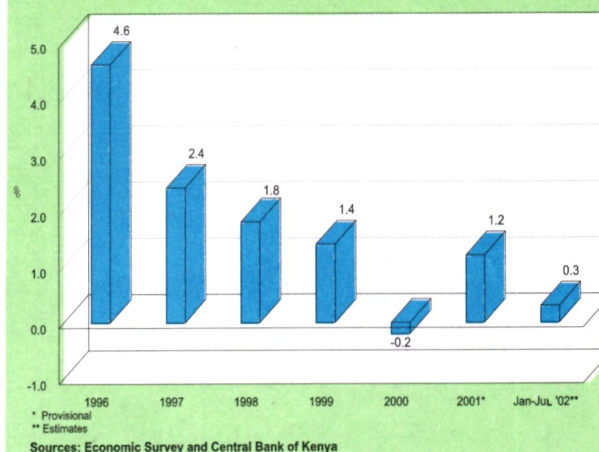


TABLE 27: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

| MAIN SECTORS | Share in Real GDP in 2001 (%) | Annualised Estimates July | |
|-------------------------------------|-------------------------------|---------------------------------|--------------------|
| | | 2001/ ¹ | 2002/ ² |
| Agriculture | 24.1 | 25,121 | 25,245 |
| Manufacturing | 13.0 | 13,563 | 13,631 |
| Trade, Tourism & Hotels | 2.4 | 13,273 | 13,300 |
| Financial Services | 12.7 | 10,915 | 10,990 |
| Building & Construction | 6.2 | 2,452 | 2,442 |
| Transport & Communications | 10.6 | 6,353 | 6,495 |
| Government | 14.7 | 15,243 | 15,323 |
| Others of which | 16.3 | 17,151 | 17,253 |
| <i>Non-monetary Sector</i> | 5.7 | 5,856 | 5,891 |
| <i>Domestic Services</i> | 2.9 | 3,000 | 3,051 |
| <i>Ownership of Dwellings</i> | 5.7 | 5,955 | 5,996 |
| <i>Other</i> | 2.0 | 2,340 | 2,314 |
| Est. Real GDP (1982 Prices) | 100.0 | 104,072 | 104,679 |
| Nominal GDP (at Factor cost) | 772,893 | | |
| Overall GDP Deflator | 7.4 | | |
| GDP at Mkt Prices | 895,278 | | |
| MAIN SECTORS | | Annual Percentage Change | |
| Agriculture | | 0.6 | 0.5 |
| Manufacturing | | 0.2 | 0.5 |
| Trade, Tourism & Hotels | | 0.7 | 0.2 |
| Financial Services | | 0.8 | 0.7 |
| Building & Construction | | -1.2 | -0.4 |
| Transport & Communications | | 2.9 | 2.2 |
| Government | | 0.6 | 0.5 |
| Others | | 0.8 | 0.6 |
| <i>Non-monetary Sector</i> | | 0.6 | 0.6 |
| <i>Domestic Services</i> | | 0.9 | 1.7 |
| <i>Ownership of Dwellings</i> | | 1.0 | 0.7 |
| <i>Other</i> | | -1.5 | -1.1 |
| Est. Real GDP Growth | | 0.7 | 0.6 |

Notes

1 From the Economic Survey, 2002.

2 Based on selected economic activities.

Sources: Central Bureau of Statistics and Central Bank of Kenya

Agriculture

Among the cash crops, horticultural produce increased by 5.8% during the first seven months of 2002 compared with an increase of 6.2% in a similar period of 2001 while sugar cane output increased by 32.9% compared with a decline of 26.2%. Output of tea, pyrethrum and sisal, however, declined by 5.7%, 20.4% and 1.1%, respectively, during the period compared with 39.3%, 87.5% and 3.3% increases in the same period in 2001. Coffee production declined by 18.7% in the first seven months of 2002 compared with a decline of 37.4% in the same period of 2001.

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

| Crop | Jan - Jul | | |
|--------------|-----------|-------|-------|
| | 2000 | 2001 | 2002 |
| Tea | -5.0 | 39.3 | -5.7 |
| Horticulture | 0.2 | 6.2 | 5.8 |
| Coffee | 52.4 | -37.4 | -18.7 |
| Sugar cane | -10.7 | -26.2 | 32.9 |
| Pyrethrum | -5.0 | 87.5 | -20.4 |
| Sisal | -2.3 | 3.3 | -1.1 |

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

The production of major food crops improved over the period following favourable weather conditions. Among the food crops, the average prices of dry maize and beans from selected markets declined to Khs 11.53 and Ksh 28.09, respectively, in August 2002 from Ksh 11.76 and Ksh 29.07 in June.

Manufacturing

Latest data on the performance of the manufacturing sector during the first seven months of 2002 continued to point to a modest recovery:

- The consumption of electricity, an input mostly utilised by industrial plants, increased by 1.9% during the first seven months of 2002 compared with a decline of 4.8% in a similar period of 2001.
- Exports of manufactures increased by 8.1% during the first half of 2002 compared with an increase of 6.9% in the same period of 2001. The improved performance was partly in exports of textiles and fabrics, which increased by 196% in the period following access to the United States market through the African Growth and Opportunities Act (AGOA).
- Imports of inputs for the sector, namely, chemicals and related products increased by 8.2% in the first half months of 2002 compared with an increase of 11.3% in a similar period of 2001.

The performance of some selected manufactured items were favourable except assembled motor vehicles which declined due to strong competition from the relatively cheap imported units of second hand vehicles (Table 29).

TABLE 29: PRODUCTION OF SELECTED MANUFACTURES (%)

| Item | January - July | |
|-----------------------------|----------------|-------|
| | 2001 | 2002 |
| Galvanised sheets (MT) | 2.2 | 5.4 |
| Mineral water ('000 litres) | 7.7 | 12.0 |
| Soda ash (MT) | 24.6 | 4.9 |
| Cement (MT) | 15.3 | 4.3 |
| Assembled vehicles (units) | -14.3 | -21.0 |
| Processed Sugar (MT) | -27.6 | 31.7 |

Source: Central Bureau of Statistics and Kenya Sugar Authority

Building and Construction

Main indicators in the building and construction sector remain weak. The consumption of cement, the main input in the sector, declined by 37.7% in the first seven months of 2002 compared with a decline 30.8% in a similar period in 2001. The depressed activity in the sector partly reflects limited public sector works due to budget constraints and the slowdown in economic activity.

Transport, Storage and Communications

Economic activity in key sub-sectors over the first seven months of 2002 was as follows (Table 30):

- Cargo handled through the Port of Mombasa (KPA) declined by 1.5% compared with a growth of 34.2% in the first seven months of 2001.
- Throughput by the Kenya Pipeline Company (KPC) declined by 4.9% compared with a growth of 6.8% in a similar period of 2001.
- The number of passengers through Jomo Kenyatta International Airport (JKIA) grew marginally by 0.04% compared with an increase of 20.5% in the first half of 2001.
- Cargo carried by the Kenya Railways Corporation (KR) grew by 1.3% during the first seven months of 2002 compared with a decline of 7.4% during the first seven months of 2001.
- The consumption of petroleum products increased by 4.6% in the first half of 2002 compared with a decline of 0.9% in the first half of 2001.

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

| | Jan - Jul | |
|----------------------|-----------|------|
| | 2001 | 2002 |
| Cargo by KPA (MT) | 34.2 | -1.5 |
| Cargo by KR (MT) | -7.5 | 1.3 |
| Passengers thro JKIA | 20.5 | 0.0 |
| Throughput by KPC | 6.8 | -4.9 |
| Consumption of fuels | -0.9 | 4.6 |

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

Trade, Restaurants and Hotels

Economic activity in the tourism sub-sector slowed down during the first seven months of 2002 as follows:

- The number of tourists arriving at Jomo Kenyatta International Airport (JKIA) declined by 13.1% compared with an increase of 8.9% in the same period in 2001.
- Tourists arriving at Moi International Airport, Mombasa (MIAM) declined by 6.4% in the first seven months of 2002.
- Consequently, earnings in the sector declined to US \$ 141.1m in the first eight months of 2002 compared with US \$ 180.6m in a similar period in 2001.

The slowdown in the sector largely reflects the deterioration in the global economic and political environment and the uncertainty in the run up to the general elections.

Financial Services

Banking institutions realised pre-tax profits of Ksh 6.0bn in the first seven months of 2002 compared with Ksh 6.3bn in the same period of 2001. The modest decline in the profitability was attributed to the high level of non-performing loans.

Provisions for bad and doubtful debts increased to Ksh 3.7bn from Ksh 3.5bn in the period. However, as a result of restructuring and other cost cutting measures, total expenses of the banking sector declined to Ksh 28.7bn between January and July 2002 compared with Ksh 31.9bn in a comparable period in 2001.

Government Services

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

Outlook in 2002

Prospects for the economy will remain favourable and will continue to be propelled largely by the agricultural sector following the prevailing favourable weather conditions. Similarly, growth will continue to be supported by the increased access to the wider regional markets within the East African Community (EAC) and COMESA and other preferential trade arrangements, such as AGOA. Economic growth, however, continues to be hampered by the structural inefficiencies in the economy and the perceived uncertainties associated with the forthcoming general elections.

(Amounts in Ksh Millions)

| | August 2001 | August 2002 | Movement |
|--|----------------|----------------|---------------|
| ASSETS | 147,620 | 161,357 | 13,737 |
| Foreign Exchange | 76,933 | 86,775 | 9,842 |
| Advances and Discounts to Banks | 2,493 | 5,079 | 2,586 |
| Investment in Government Securities | 4,377 | 1,377 | -3,000 |
| Government Accounts | 39,735 | 47,729 | 7,994 |
| Overdraft to Government of Kenya | 501 | 8,094 | 7,593 |
| Clearing Account | 349 | 633 | 284 |
| IMF funds onlent to Government | 1,968 | 2,085 | 117 |
| Non-interest Bearing Government Debt | 36,917 | 36,917 | 0 |
| Debtors | 2,911 | 1,648 | -1,263 |
| Retirement Benefits | 289 | 287 | -2 |
| Property and Equipment | 606 | 820 | 214 |
| Other Assets | 20,276 | 17,642 | -2,634 |
| Revaluation Account | 18,642 | 17,642 | -1,000 |
| Times Tower | 1,634 | - | -1,634 |
| LIABILITIES | 147,620 | 161,357 | 13,737 |
| Currency in Circulation | 47,583 | 53,186 | 5,603 |
| Repo Securities | 14,285 | 27,453 | 13,168 |
| Deposits | 77,602 | 68,505 | -9,097 |
| Government of Kenya | 33,114 | 25,924 | -7,190 |
| Commercial Banks | | | |
| Kenya | 25,622 | 23,948 | -1,674 |
| External | 28 | 22 | -6 |
| Non -bank Financial Institutions | 663 | 449 | -214 |
| IMF | 10,450 | 9,608 | -842 |
| Other Public Entities and Project A/Cs | 7,725 | 8,554 | 829 |
| Other Liabilities and Provisions | 740 | 593 | -147 |
| Capital and Reserves | 7,410 | 11,620 | 4,210 |
| Capital | 1,500 | 1,500 | 0 |
| General Reserve Fund | 5,538 | 7,951 | 2,413 |
| Period's Surplus | 372 | 1,059 | 687 |

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 August 2001 and August 2002:

Assets

Foreign exchange increased by Ksh 9,842m to Ksh 86,775m from Ksh 76,933m mainly due to purchase of foreign exchange from the interbank market.

Advances and discounts to commercial banks increased by Ksh 2,586m to Ksh 5,079m.

Government accounts increased by Ksh 7,994m to Ksh 47,729m in August 2002, mainly on account of Ksh 7,593m increase in the overdraft to Government of Kenya.

Other assets, comprising revaluation account and Times Tower, decreased by Ksh 2,634m to Ksh 17,642m.

Liabilities

Currency in circulation increased by Ksh 5,603m to Ksh 53,186m from Ksh 47,583m.

The stock of **repo securities** increased by Ksh 13,168m to Ksh 27,453m.

Deposits decreased by Ksh 9,097m to Ksh 68,505m due to a decrease in deposits of the Government of Kenya by Ksh 7,190m. Similarly, deposits of IMF and commercial banks declined by Ksh 842m and Ksh 1,674m, respectively.

Other liabilities and provisions decreased by Ksh 147m to Ksh 593m.

Capital and reserves increased by Ksh 4,210m to Ksh 11,620m in the year to August 2002 due to Ksh 2,413m increase in the general reserve fund and Ksh 687m increase in the period's surplus.

