

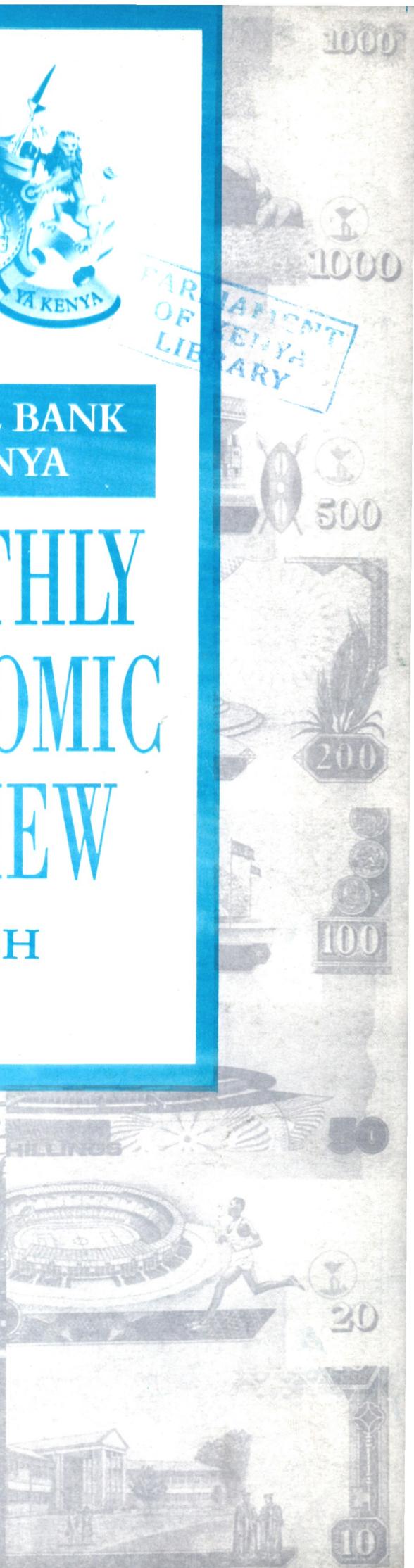
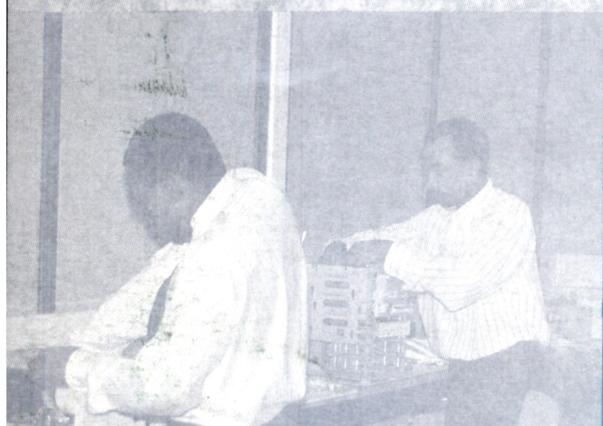
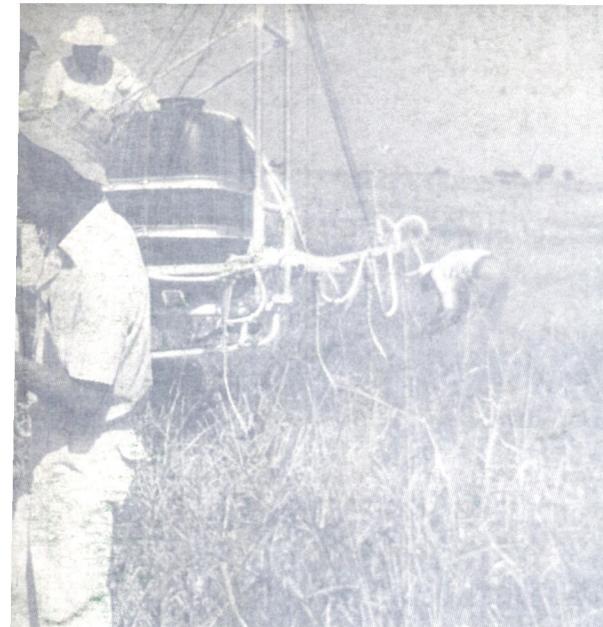


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CENTRAL BANK OF KENYA

MONTHLY ECONOMIC REVIEW

MARCH 2003



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 MONTHLY ECONOMIC REVIEWS

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

<http://www.centralbank.go.ke>

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KENYA NATIONAL ASSEMBLY
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HIGHLIGHTS OF THE MARCH ECONOMIC REVIEW

Looking at the **overall performance** for the year 2002, Kenya's economy measured by GDP expanded by an estimated 0.9% in 2002 compared with 1.2% in 2001. The 12-month underlying **inflation** stood at 3.4% in February 2003 compared with 3.8% in February 2002. The 12-month overall inflation, however, increased to 7.5% from 1.1% in the same period. The increase in overall inflation was mainly attributed to increases in the prices of crude petroleum and related products and in domestic prices of basic foods due to normal dry seasonal weather patterns.

Interest rate for the 91-day Treasury bill, however, declined to 7.8% in February 2003 from 8.4% in January. **Money supply**, M3X, on the other hand, increased by 12.7% in the year to January 2003 compared with zero over a similar period in 2002. The increase was attributed to rise in both net foreign assets (NFA) and net domestic assets (NDA) of the banking system.

Assets of the **banking sector** similarly increased to Ksh 459.6bn at the end of January 2003 from Ksh 422.4bn at the end of January 2002. Non-performing loans (NPLs), net of interest in suspense, were estimated at Ksh 72.8bn or 28.3% of total loans in January 2003, compared with Ksh 74.5bn or 30.1% in January 2002. Provisions for the NPLs decreased to Ksh 29.1bn in January 2003 from Ksh 30.1bn in January

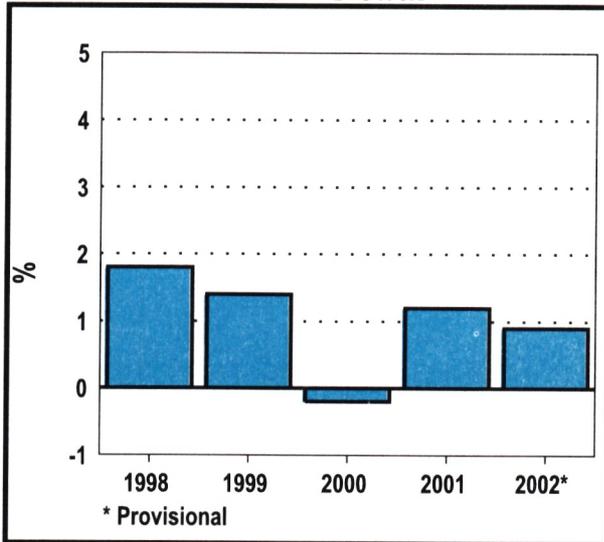
2002. Adjusted for the provisions and the value of securities held by the banking sector estimated at Ksh 42.6bn, banks net exposure was Ksh 1.1bn compared with a net exposure of Ksh 7.9bn in January 2002.

On **Government budgetary operations**, the first seven months of fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 20.6bn or 2.1% of GDP compared with a deficit of Ksh 12.0bn in a similar period in the previous fiscal year. The stock of **public debt** increased to Ksh 632.7bn in January 2003 from Ksh 613.8bn in June 2002. The increase was entirely in domestic debt as external debt declined.

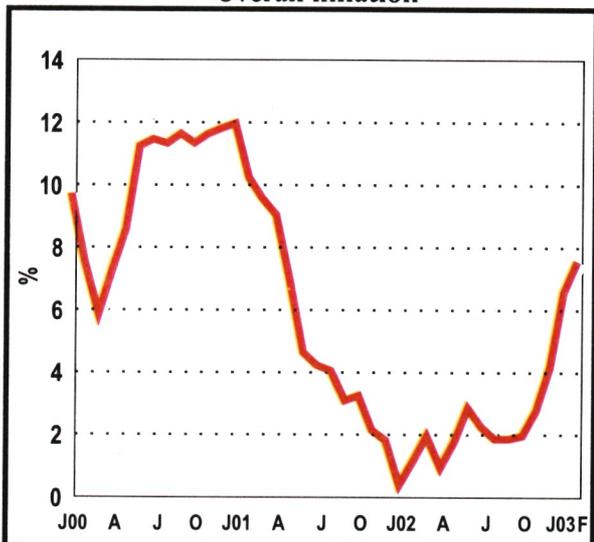
Developments in the interbank foreign exchange market indicate that the **Kenya shilling** appreciated against the US dollar to exchange at Ksh 76.84 in February 2003 from Ksh 77.7 in January. The **balance of payments** improved to US\$ 178m surplus in the year to January 2003 from a US\$ 4m surplus in the year to January 2002. **Foreign exchange reserves** of the Central Bank consequently increased to US\$ 1,163m or 3.4 months of import cover at the end of January 2003 compared with US\$ 1,035m at the end of January 2002.

SELECTED PERFORMANCE INDICATORS

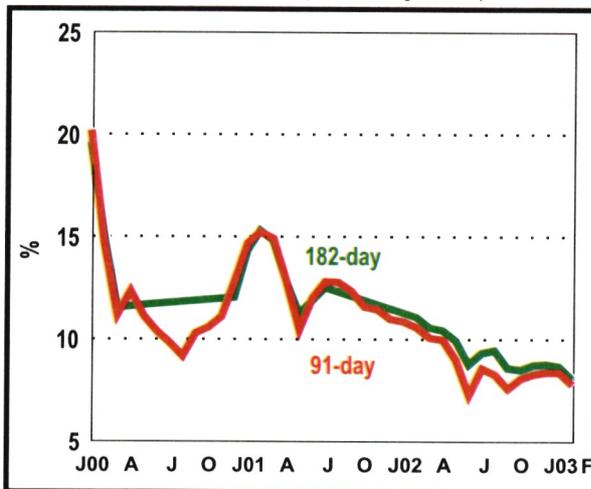
Real GDP Growth



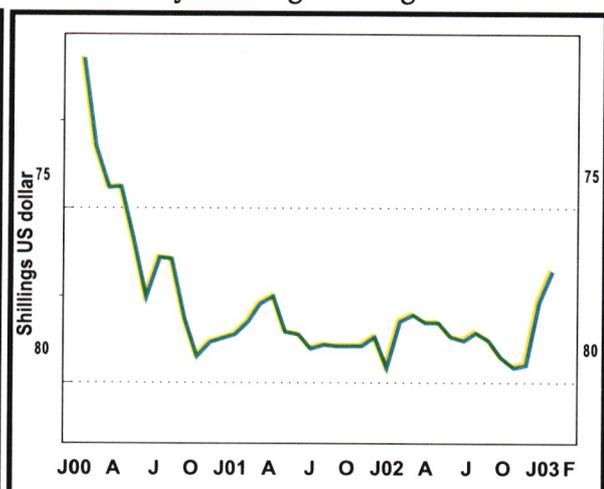
Overall Inflation



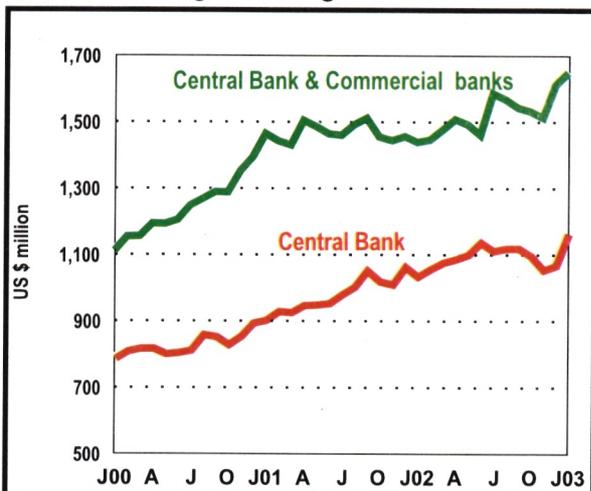
Interest Rates (Treasury Bills)



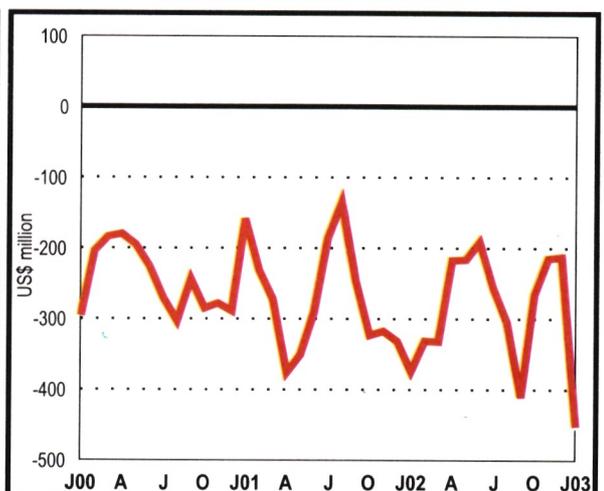
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



Source: Central Bank of Kenya

SELECTED ANNUAL ECONOMIC INDICATORS, 1998 - 2002

INDICATOR	1998	1999	2000	2001	2002*
1. POPULATION					
People in Millions	28.8	29.5	30.2	30.8	31.4
Growth (%)	2.4	2.2	2.1	2.1	2.0
2. NATIONAL ACCOUNTS					
GDP Market Prices (Ksh bn)	691	742	796	895	924
GDP at Factor Cost (US\$M):					
At Current Prices	9825	9090	9005	9833	10533
At Constant 1982 Prices	9285	9417	9393	9465	9593
Real GDP Growth (%)	1.8	1.4	-0.2	1.2	0.9
Per Capita Income (US Dollars)**	325	322	314	311	284
3. GROSS DOMESTIC SAVINGS (% of GDP at mkt prs)	9.8	10.9	7.4	6.5	6.4
4. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prs)	17.4	16.2	15.4	14.5	13.5
5. CONSUMER PRICE INFLATION (URBAN)					
Average Annual Inflation	6.6	5.7	10.0	5.8	1.9
Twelve-month Inflation	0.7	10.4	11.8	1.8	4.1
6. STOCK MARKET					
Nairobi Stock Exchange Price Index (1966=100)	2962.1	2303.2	1913.4	1355.1	1362.9
Trade Turnover (%)	0.4	0.2	0.2	0.2	0.5
7. GOVERNMENT BUDGET (Ksh bn) ***					
Revenue and Grants	184.9	201.2	182.7	216.4	204.6
Expenditure	195.0	197.3	175.2	232.9	226.9
Budget Deficit (-) / Surplus (+)	-10.1	3.8	7.6	-16.5	-22.3
Budget Deficit (% of GDP)	-1.6	0.5	1.0	-2.0	-2.4
8. MONEY AND CREDIT (Ksh bn)(end period)					
Money Supply (M3XT)	381.3	414.4	435.5	462.1	521.2
Money Supply (M3X)	333.6	345.7	360.0	368.4	406.0
Reserve Money	75.0	79.0	77.7	79.1	88.5
Total Domestic Credit	350.6	358.5	362.1	334.1	406.3
Government	91.1	84.1	76.4	89.1	108.6
Others	260.6	274.3	285.6	244.9	297.7
9. BALANCE OF PAYMENTS (US\$ m)					
Overall Balance	66	-21	-8	22	76
Current Account	-549	-214	-288	-398	-216
Capital and Financial Account	615	193	279	420	292
10. FOREIGN EXCHANGE RESERVES (US\$ m)	1,100	1,104	1,398	1,459	1,614
Official****	783	791	897	1,064	1,067
Months of imports	(2.5)	(2.9)	(2.9)	(3.2)	(3.3)
Commercial banks & public	317	313	501	395	547
11. PUBLIC DEBT (US\$ bn)	8.7	8.0	7.7	7.7	7.9
Domestic	3.0	2.6	2.5	2.8	3.3
As % of GDP	30.2	24.5	22.8	23.9	26.4
External	5.7	5.4	5.2	4.9	4.6
As % of GDP	57.7	50.6	47.9	41.8	37.6
12. EXCHANGE RATE (Ksh/US\$) (ANNUAL AVERAGE)	60.4	70.3	76.2	78.7	79.5

* Provisional.

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

*** Fiscal year to June 30th.

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

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2001	2002		2003						
	Dec	Jan	Mar	Jun	Sep	Oct	Nov	Dec	Jan	Feb
1. INFLATION (%)										
Overall (Urban)										
12-month	1.8	0.4	1.9	2.8	1.8	1.9	2.7	4.1	6.5	7.5
Average annual	5.8	4.8	3.5	2.3	1.8	1.7	1.7	1.9	2.4	3.0
Underlying (overall excluding food and energy)										
12-month	5.0	4.1	4.1	3.7	1.7	1.8	1.9	2.7	3.0	3.4
Average annual	5.5	5.3	5.1	4.6	3.7	3.4	3.1	2.9	2.8	2.8
2. INTEREST RATES (%)										
91-day Treasury bill	11.0	10.9	10.1	7.3	7.6	8.1	8.3	8.4	8.4	7.8
Overdraft	20.0	19.3	18.8	18.5	18.5	18.9	18.6	18.6	18.5	..
3. STOCK MARKET										
Nairobi Stock Exchange Price Index	1355.1	1343.0	1183.1	1082.6	1043.4	1116.4	1161.6	1362.9	1510.6	1557.7
Trade Turnover (%)	0.17	0.15	0.21	0.19	0.36	0.23	0.40	0.47	0.60	0.35
4. GOVERNMENT BUDGET** (Ksh bn.)										
Revenue and Grants	93.8	110.5	142.3	203.3	48.6	64.4	80.8	100.1	119.0	..
Expenditure:	102.2	122.4	157.6	225.6	57.8	79.3	98.7	120.7	139.6	..
Budget Deficit (-) / Surplus (+)	-8.4	-12.0	-15.3	-22.3	-9.3	-14.9	-17.9	-20.6	-20.6	..
5. MONEY AND CREDIT (Ksh bn.)										
MONEY SUPPLY (MBXT)	462.1	460.2	466.4	483.9	499.4	497.7	509.9	521.2	523.8	..
MONEY SUPPLY (MBX)	368.4	360.6	366.1	378.3	387.4	387.3	395.7	406.0	406.4	..
Reserve Money	79.1	73.6	75.8	76.9	78.6	77.1	80.6	88.5	83.5	..
Total Domestic Credit	334.0	325.8	329.5	341.9	354.3	355.5	362.6	364.9	364.8	..
Government	89.1	84.2	88.6	94.7	101.6	103.9	108.4	108.6	108.4	..
Private Sector	244.9	241.7	240.8	247.2	252.6	251.6	254.2	256.3	256.4	..
6. MONEY AND CREDIT (Annual %Change)										
MONEY SUPPLY (MBXT)	6.1	4.3	5.7	8.4	10.6	9.5	13.6	12.8	13.8	..
MONEY SUPPLY (MBX)	2.3	0.0	2.1	6.7	8.4	7.0	9.6	10.2	12.7	..
Reserve Money	1.8	3.4	8.2	10.9	12.6	6.9	9.1	11.8	13.4	..
Total Domestic Credit	0.8	-1.2	-0.6	5.4	7.3	6.2	6.6	9.2	12.0	..
Government	16.5	14.9	16.7	37.9	32.5	23.2	18.4	21.8	28.8	..
Private Sector	-3.9	-5.9	-5.7	-3.4	-0.4	0.5	2.2	4.9	6.1	..
7. BALANCE OF PAYMENTS (US\$ m)										
Overall Balance	42	-24	25	43	4	-19	-31	20	90	..
Current Account Balance	-11	-14	-121	-57	-55	-95	-13	-3	2	..
Trade Balance	-83	-88	-140	-139	-139	-154	-129	-130	-121	..
Capital and Financial Account	53	2	145	-100	59	76	-19	22	87	..
8. FOREIGN EXCHANGE RESERVES (US \$ m)	1459	1442	1479	1563	1548	1534	1515	1614	1651	..
Official***	1064	1035	1077	1137	1119	1096	1054	1067	1163	..
Months of imports	(3.2)	(3.1)	(3.4)	(3.6)	(3.5)	(3.5)	(3.3)	(3.3)	(3.4)	..
Commercial banks	395	406	402	427	429	438	461	547	487	..
9. PUBLIC DEBT (US\$ bn)	7.7	7.7	7.8	7.8	7.9	7.9	7.9	7.9	8.1	..
Domestic	2.8	2.8	2.9	3.0	3.2	3.2	3.2	3.3	3.3	..
As % of GDP	23.9	24.2	24.9	25.6	25.5	25.5	25.9	26.4	26.8	..
External	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.6	4.7	..
As % of GDP	41.8	41.5	41.3	41.1	38.1	37.9	37.7	37.6	37.4	..
10. GROSS DOMESTIC DEBT (Ksh bn)****	220.0	222.7	229.2	236.0	250.8	251.2	255.2	259.8	264.0	..
11. AVERAGE EXCHANGE RATE										
Ksh/US\$	78.7	78.6	78.1	78.7	78.8	79.3	79.6	79.5	77.7	76.8
Ksh/Pound Sterling	113.2	112.8	111.1	116.6	122.5	123.6	125.1	126.1	125.7	123.8
Ksh/ 100 Yen	61.9	59.3	59.5	63.7	65.2	64.0	65.5	65.1	65.4	64.3
Ksh/Euro	70.2	69.5	68.4	75.1	77.3	77.8	79.7	81.0	82.6	82.8

* Provisional.

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

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

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

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

INFLATION

Introduction

The overall inflation continued to rise in February 2003 due to pressure from shortfalls in the supply of basic food items following the unusually dry weather spell. The rapid increase in the cost of petroleum, reflecting tensions in the Middle East, also contributed to the overall inflationary pressures. The underlying inflation, which is amenable to monetary policy, however, remained within the 5% policy target at 3.4%.

Overall Inflation

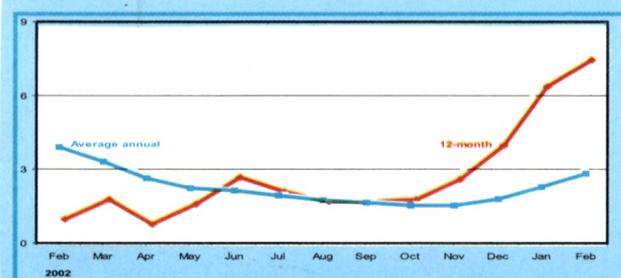
The latest trends in the overall inflation are as shown in Table 1A and Chart 1:

- The overall 12-month inflation rose to 7.5% in February 2003 from 1.1% in February 2002 and 6.5% in the year to January 2003.

TABLE 1A: OVERALL INFLATION (%)

	2001			2002			2003			
	Jan	Jun	Dec	Jan	Feb	Jun	Sep	Dec	Jan	Feb
12-month ¹	12.0	4.6	1.8	0.4	1.1	2.8	1.8	4.1	6.5	7.5
Average annual ²	10.2	10.1	5.8	4.8	4.1	2.3	1.8	1.9	2.4	3.0
Changes over one month	0.9	0.2	-0.2	-0.5	0.1	1.2	-0.3	1.3	1.8	1.1
Changes over 3 months	1.9	2.3	-0.3	-0.9	-0.4	3.4	-1.0	2.0	3.5	4.2

CHART 1



Sources: Central Bureau of Statistics & Central Bank of Kenya

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

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

- The overall average annual inflation increased to 3.0% in February 2003 from 2.4% in January.
- The overall inflation measured by the change in the overall inflation index between January and February 2003, however, declined to 1.1% from an increase of 1.8% in January 2003.

Table 1B shows the evolution of prices of some selected commodities, with the largest contribution to the overall inflationary pressures over the last twelve months. The prices of petroleum products increased by at least 10% while prices of basic food increased substantially during the period.

TABLE 1B: PRICES OF SELECTED ITEMS

Item	Unit	Average Price in Feb-02	Average Price in Feb-03	% Increase
Maize grain	1kg	12.37	15.39	24.4
Maize flour	2kg	37.71	41.54	10.2
Onions	1kg	38.4	40.63	5.8
Tomatoes	1kg	35.35	44.24	25.2
Super petrol	1 Litre	54.1	60.76	12.3
Diesel	1 Litre	42.81	47.6	11.2
Paraffin	1 Litre	33.04	36.92	11.7

Sources: Central Bureau of Statistics & Central Bank of Kenya

Underlying Inflation

The underlying inflation, which excludes food and energy prices, evolved as shown in Table 2 and Chart 2:

- The underlying 12-month inflation was lower at 3.4% in February 2003 compared with 3.8% in February 2002.
- The underlying average annual inflation was much lower at 2.8% in February 2003 compared with 5.2% in February 2002.

TABLE 2: UNDERLYING INFLATION (%)

	2001			2002			2003			
	Jan	Jun	Dec	Jan	Feb	Jun	Sep	Dec	Jan	Feb
12-month	5.9	5.4	5.0	4.1	3.8	3.7	1.7	2.7	3.0	3.4
Average annual	5.2	5.4	5.5	5.3	5.2	4.6	3.7	2.9	2.8	2.8
Changes over one month	0.9	0.0	0.2	0.0	0.0	0.1	0.1	0.6	0.8	0.4
Changes over 3 months	1.7	1.2	0.4	0.3	-0.6	0.9	0.3	0.9	1.6	1.8

CHART 2



Sources: Central Bureau of Statistics & Central Bank of Kenya

The underlying inflation, measured by the percentage change in the underlying consumer price index between January and February 2003 also declined to 0.4% from 0.8% in January 2003.

Inflation by Income Groups

The increase in the overall inflation in February 2003, affected various income groups as follows (Table 3 and Chart 3):

- The 12-month inflation in goods and services purchased by the Nairobi lower income group increased to 7.8% in February 2003 from negative 0.3% in February 2002 and 6.6% in the year to January 2003.
- The 12-month inflation in goods and services purchased by the Nairobi middle/upper income group increased to 3.7% in February 2003 from 1.1% in February 2002 and 3.3% in the year to January 2003.

- The 12-month inflation in goods and services purchased by the combined Nairobi income groups, therefore, increased to 7.0% in the period from negative 0.1% in the year to February 2002 and 5.9% in the year to January 2003.

- The 12-month inflation in goods and services purchased by consumers in towns other than Nairobi also increased to 7.7% in February 2003 from 2.0% in January 2003 and 6.7% in the year to January 2003.

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

	2001			2002			2003			
	Jan	Jun	Dec	Jan	Feb	Jun	Sep	Dec	Jan	Feb
Nairobi Lower	11.5	1.3	0.2	-2.0	-0.3	4.5	1.6	4.0	6.6	7.8
Nairobi middle/upper	8.7	4.6	1.5	1.2	1.1	2.2	3.2	3.0	3.3	3.7
Nairobi Combined	10.9	1.9	0.4	-1.4	-0.1	4.1	1.9	3.8	5.9	7.0
Rest of Urban Towns	12.7	6.4	2.4	1.7	2.0	2.1	1.7	4.5	6.7	7.7

CHART 3



Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Categories of Goods and Services

Fuel and power; and food and drinks had the highest levels of inflation at 11.8% and 10.2%, respectively, during the twelve months to February 2003 in contrast with negative 0.6% and negative 0.4% in the year to February 2002. Transport and communications had 5.6% inflation

compared with 0.4% in the same period. Inflation in the other categories of goods and services, which were not affected by the dry weather spell and events in the Middle East, remained relatively low during the period as shown in Table 4 and Chart 4.

Outlook

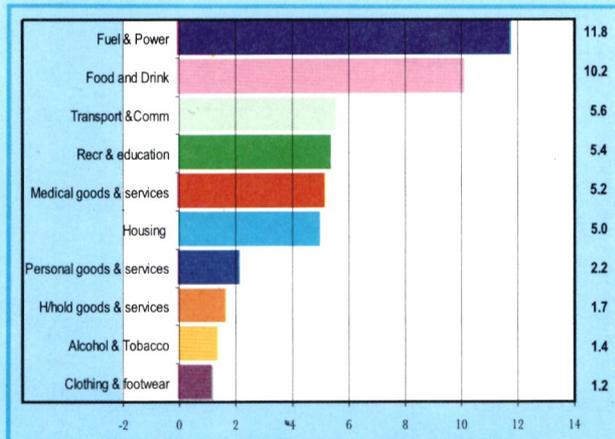
The supply of basic food items is expected to increase with the ending of the January-March dry spell. The evolution of petroleum prices in the coming months will, however, depend on the current geo political developments in the Middle East. The Central Bank will, however, continue to implement appropriate monetary policy aimed at containing underlying inflation, within the 5% target. The continuing strengthening in the shilling exchange rate is also expected to reduce inflationary pressure.

TABLE 4: BASKET WEIGHTS & OVERALL 12-MONTH INFLATION, JAN - FEB 2003

Goods and Services	Income Groups*			Combined weights (100)	Inflation (%)	
	Lower (31.9)	Middle/Upper (8.0)	Rest of Urban Towns (60.1)		2003 Jan	2003 Feb
Food and Drink	55.7	31.9	50.2	50.5	8.5	10.2
Housing	11.9	31.7	9	11.7	3.9	5.0
Recr & education	4.6	7.3	6.6	6.0	5.2	5.4
Hhold goods & services	5	4.7	6.4	5.8	2.2	1.7
Clothing & footwear	9.2	7.4	9.1	9.0	1.1	1.2
Transport & Comm	5.1	10.2	5.5	5.7	5.4	5.6
Fuel & Power	3.5	2.2	4.8	4.2	10.8	11.8
Medical goods & services	0.9	1.3	2	1.6	5.4	5.2
Personal goods & services	2.3	1.9	2.6	2.4	1.8	2.2
Alcohol & Tobacco	1.8	1.4	3.8	3.0	1.1	1.4

* Numbers in parentheses are income group weights

CHART 4



Sources: Central Bureau of Statistics & Central Bank of Kenya

MONEY AND CREDIT

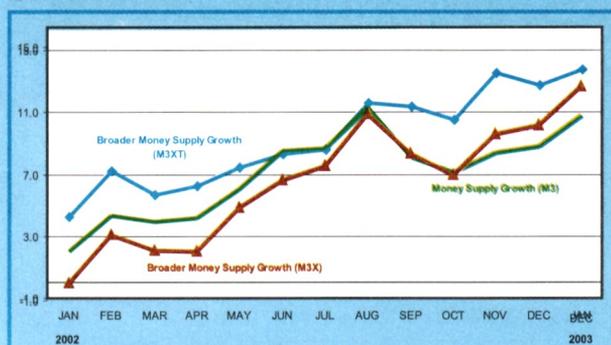
All measures of money supply increased rapidly in the year to January 2003 compared with the year to January 2002 (Tables 5 and 6 and Chart 5). Developments in money supply during the period under review were as follows:

- The money supply, M3, comprising currency with the non banking public and private sector shillings deposits placed with banking institutions increased by 10.8% compared with 2% growth in a similar period in 2002.

TABLE 5: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

	2001			2002			2003	
	Sep	Dec	Jan	Mar	Jun	Sep	Dec	Jan
M3	0.7	2.5	2.0	3.9	8.5	8.1	8.8	10.8
M3X	1.7	2.3	0.0	2.1	6.7	8.4	10.2	12.7
M3XT	8.1	6.1	4.3	5.7	8.4	11.4	12.8	13.8

CHART 5



Source: Central Bank of Kenya

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

	Jan.	Jan.	Annual Change	
	2002	2003	Absolute	%
1. Money supply, M3XT 1/	460.2	523.8	63.7	13.8
2. Money supply, M3X (4+5) 2/	360.6	406.4	45.8	12.7
3. Money supply, M3 3/	316.6	350.8	34.3	10.8
Of which: M2	303.2	338.4	35.2	11.6
4. Net foreign assets 4/	92.5	101.6	9.1	9.8
Central Bank	74.7	75.9	1.2	1.6
Banking institutions	17.8	25.7	7.9	44.3
5. Net domestic assets (5.1+5.2)	268.1	304.8	36.7	13.7
5.1 Domestic credit (5.1.1+5.1.2)	325.8	364.8	39.0	12.0
5.1.1 Government (net)	84.2	108.4	24.2	28.8
Central Bank	10.9	19.6	8.7	79.4
Banking institutions	73.2	88.8	15.5	21.2
5.1.2 Private sector and other public sector 5/	241.7	256.4	14.7	6.1
5.2 Other net domestic assets (5-5.1)	-57.7	-60.1	-2.3	-4.0
6. Reserve money	73.6	83.5	9.9	13.4
Currency in circulation	50.1	57.4	7.4	14.7
Banking institutions' deposits with CBK	23.6	26.1	2.5	10.7
Memorandum items				
Treasury bills outstanding	120.1	105.8	-14.3	-11.9

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

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

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

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

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

5/ Excludes interest in suspense.

Source: Central Bank of Kenya

- The broad money supply, M3X, that comprise M3 and residents foreign currency deposits with commercial banks increased by 12.7% compared with zero growth in a similar period in 2002.
- The broader money supply, M3XT, comprising M3X and non-bank investment in Government securities, expanded by 13.8% compared with 4.3% growth in a similar period in 2002.

The money supply M3X expanded by Ksh 45.8bn in the twelve months to January 2003, reflecting increases of Ksh 9.1bn in banking system net foreign assets (NFA) and Ksh 36.7bn or 13.7% in net domestic assets (NDA). The accumulation of the NFA was largely in holdings of commercial banks. The expansion in NDA wholly reflected increased credit to both the Government and the private sectors, which offset a marginal decline in other domestic assets. The 6% credit expansion to the private sector partly supported an estimated 0.9% growth in domestic output in 2002.

Reserve Money

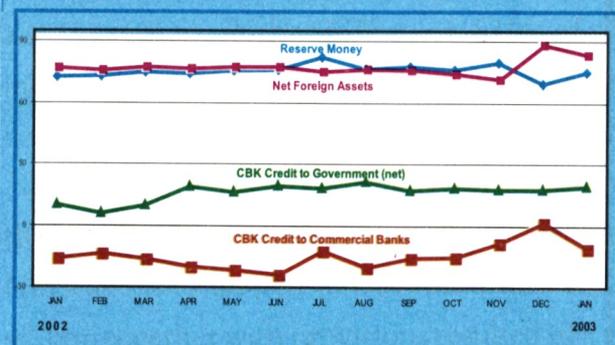
Reserve money, comprising currency in circulation and bank deposits with the Central Bank, increased by 13.4% in the year to January 2003 compared with 3.4% growth in the year to January 2002. Both components of reserve money increased rapidly during the period under review (Table 7 and Chart 6). The reserve money expansion originated largely from net domestic assets (NDA) of the Central Bank as the increase in net foreign assets (NFA) remained marginal. Due to the suspension of donor inflows, the Bank continued to make Government debt service payments with foreign exchange purchased from the domestic inter-bank market.

The NDA expanded by Ksh 8.7bn from Ksh 16.3bn to Ksh 7.6bn in the year to January 2003. Credit to Government, increased by Ksh 8.7bn and dominated the NDA expansion given that liquidity injection from Ksh 4.4bn draw down of commercial banks deposits held with the Central Bank was offset by a matching decline in other domestic assets. The expansion in credit to Government reflected utilisation of the overdraft facility. Meanwhile, the liquidity injection of Ksh 4.4bn through commercial banks comprised Ksh 2.8bn in net redemptions of repo Treasury bills and Ksh 1.5bn additional advances to banks. Although the stock of repo bills held by commercial consequently declined from Ksh 18.8bn by end January 2002 to Ksh 16bn by end January 2003, it, however, rose by Ksh 9.1bn in the month of January 2003. The January 2003 accumulation in the repo stock reflected timely action by the Bank to stem unwarranted pressures on domestic prices by withdrawing excess liquidity with commercial banks.

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

	2002	2003	Annual Change	
	Jan.	Jan.	Absolute	%
1. Net Foreign Assets	74.7	75.9	1.2	1.6
2. Net Domestic Assets	-1.1	7.6	8.7	-779.1
2.1 Government Borrowing (net)	10.9	19.6	8.7	79.4
2.2 Advances & Discounts	-15.4	-11.0	4.4	-28.3
2.3 Other Domestic Assets (net)	3.3	-1.0	-4.4	-131.0
3. Reserve Money	73.6	83.5	9.9	13.5
3.1 Banks & NBFIs Deposits at CBK	23.6	26.1	2.5	10.7
3.2 Currency in Circulation	50.1	57.4	7.4	14.7

CHART 6



Source: Central Bank of Kenya

Credit Developments

Credit to the economy from banking institutions recovered in the year to January 2003 from the decline during a similar period in 2002. The expansion was mainly in credit to Government, which exceeded the set targets. The credit expansion to the private sector, however, fell below set targets due to the impact of strong competition from the attractive risk-free investment in Government securities.

Highlights on Domestic Credit

- Trends in net domestic credit reversed from 1.2% repayment in the year to January 2002 to 12% expansion in the year to January 2003. After standing at Ksh 325.8bn in January and February 2002, net domestic credit from banking institutions increased by Ksh 39.0bn to Ksh 364.8bn in January 2003.
- The Ksh 39bn credit expansion comprised increases of Ksh 24.2bn or 28.8% to Government and Ksh 14.7bn or 6% to the private sector. Credit to Government accounted for 62.2% of the total and reflected reliance on domestic bank resources to finance the budget deficit. Net credit expansion to Government also reflected the draw down of Government deposits held at the Central Bank, new lending through advances and investment in Government securities. Government indebtedness to the Bank increased by Ksh 8.7bn in the twelve months to January 2003, and that to commercial banks and NBFIs expanded by Ksh 15.5bn over the same period. Underscoring greater Government recourse to banking system for domestic financing, the share of bank

financed net domestic debt rose from 45.8% in January 2002 to 48% in January 2003.

- Banking system lending to the private sector expanded by Ksh 14.1bn in the twelve months to January 2003, with commercial banks being the principal sources. The banks channelled Ksh 25.6bn to private households, finance and insurance, transport and communications, and agriculture but also received Ksh 11.6bn in repayments by other activities, trade, mining and quarrying and business services (Table 8). The credit to the private sector, however, fell below the respective targets throughout the year due to low economic performance.
- The credit expansion to the private sector was also constrained by high interest rates with average lending rate at 18.3% and thorough scrutiny of new loan applications by banks in order to minimise incidences of non-performing loans.

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

	2002		2003		Annual Change	
	January	Share (%)	January	Share (%)	Ksh bn	(%)
1. Credit to other public sector	7.3	3.0	8.0	3.1	0.7	9.2
Local government	0.0	0.0	0.1	0.0	0.1	-2869.7
Parastatals	7.3	3.0	7.9	3.1	0.6	7.9
2. Credit to private sector	234.4	97.0	248.5	98.9	14.1	6.0
Agriculture	22.2	9.2	25.6	10.0	3.5	15.7
Manufacturing	49.8	20.6	50.2	19.6	0.4	0.9
Trade	46.2	19.1	39.2	15.3	-7.0	-15.1
Building and construction	20.3	8.4	20.7	8.1	0.5	2.4
Transport & communications	10.7	4.4	16.3	6.3	5.6	52.7
Finance & insurance	15.5	6.4	22.8	8.9	7.3	47.2
Real estate	20.7	8.6	20.7	8.1	0.0	0.1
Mining and quarrying	2.6	1.1	1.8	0.7	-0.8	-31.3
Private households	10.6	4.4	18.7	7.3	8.1	76.1
Consumer durables	5.4	2.2	6.1	2.4	0.7	12.5
Business services	26.3	10.9	25.6	10.0	-0.7	-2.6
Other activities	4.2	1.7	0.6	0.2	-3.5	-84.7
3. TOTAL (1+2) *	241.7	100.0	256.4	100.0	14.7	6.1

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

Source: Central Bank of Kenya

BANKING SECTOR DEVELOPMENTS

Structure of the Banking System

There were 43 commercial banks, 2 non-bank financial institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 48 forex bureaus in the banking system as at end of February 2003 (Table 9). The decline from 55 institutions in February 2002 to 51 in February 2003 followed the mergers involving six institutions and the closure of a bank by the Central Bank of Kenya. The closed bank was subsequently placed under liquidation by the Deposit Protection Fund Board (DPFB).

TABLE 9: COMMERCIAL BANKS, NBFIs & FOREIGN EXCHANGE BUREAUS

Type of Institution/Bureau	Feb-2001	Feb-2002
Commercial Banks	46	43
(a) Operating	45	43
(b) Under Central Bank statutory management	1	0
Building Societies	4	4
Mortgage Finance Companies	2	2
Non-bank Financial Institutions	3	2
(a) Operating	3	2
(b) Under Central Bank statutory management	-	-
Total	55	51
Foreign Exchange Bureaus	48	48

Source: Central Bank of Kenya

Assets and Advances

Total assets of the banking system increased to Ksh 459.6bn in January 2003 from Ksh 422.4bn in January 2002. Loans and Advances, which accounted for 56% of total assets increased by Ksh 9.5bn to Ksh 257.1bn in January 2003 from Ksh 247.6bn in January 2002 (Table 10). The increase in total advances was mainly due to increased lending to the transport and communications, finance and insurance and private household sectors.

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

	Jan	Jan	Change*	
	2002	2003	Absolute	%
ASSETS	422.4	459.6	37.3	8.8
Loans and Advances	247.6	257.1	9.4	3.8
Government Securities	93.9	98.9	5.1	5.4
Balances at Central Bank	25.1	24.8	-0.3	-1.1
Fixed Assets	18.1	18.0	-0.1	-0.6
Other Assets	23.1	37.7	14.6	63.2

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

**Includes interbank balances.

Source: Central Bank of Kenya

Other Assets

Banking system investment in Government securities increased by 5.4% to Ksh 98.9bn in January 2003 from Ksh 93.9bn in January 2002, and accounted for 22% of total assets. Cash deposited with the Central Bank decreased to Ksh 24.8bn from Ksh 25.1bn and accounted for 5% of total assets.

Asset Quality

At the end of January, 2003 non-performing loans (NPLs) were estimated at Ksh 72.8bn or 28.3% of total loans, compared with Ksh 74.5bn or 30.1% of total loans in January 2002 (Table 11). The decline in non-performing loans by Ksh 1.7bn was mainly due to loan write-offs by some institutions. The non-performing loans were mainly concentrated in ten institutions, which accounted for Ksh 44.2bn or 61% of the industry's total non-performing loans. Provisions for NPLs decreased to Ksh 31.5bn from Ksh 32.6bn in January 2003. On average, however, the banking sector was well cushioned against the NPLs as the estimated value of securities at Ksh 42.6bn together with provisions resulted in a net exposure of only Ksh 1.1bn compared with a net exposure of Ksh 7.9bn in January 2002.

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

	Jan-02	Jan-03
1. Total Advances	247.6	257.1
2. Specific Provisions	30.1	29.1
3. General Provisions	2.5	2.4
4. Total Provisions (2+3)	32.6	31.5
5. Net Advances (1-4)	215.0	225.6
6. Total Non-Performing Loans (NPLs)**	74.5	72.8
7. Net Non-Performing Loans (6-2)	44.4	43.7
8. Value of securities (estimated)	36.5	42.6
9. Net Exposure (7-8)	7.9	1.1
10. Total NPLs as % of total Loans (6/1)	30.1%	28.3%
11. Total Provisions as % of total loans (4/1)	13.2%	12.3%
12. Exposure as % of total loans (9/1)	3.0%	0.4%

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

Source: Central Bank of Kenya

Deposit Liabilities

Deposits, including interbank deposits and accrued interest, held by banking institutions increased by 11% to Ksh 364.1bn in January 2003 from Ksh 328.0bn in January 2002. In terms of market share, the largest ten commercial banks accounted for 77.3% of all deposits in the banking system.

Capital and Reserves

Capital and reserves of the banking system increased by 0.4% to Ksh 56.8bn in January 2003 from Ksh 56.6bn in January 2002 (Table 12). Capitalisation, measured by the ratio of total capital to total risk-weighted assets ratio, decreased to 17.6% at the end of January 2003 from 18.9% at the end of January 2002, and was above the 12% minimum requirement.

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

	Jan 2002	Jan 2003	Annual Change*	
			Absolute	%
LIABILITIES	365.8	402.8	37.0	10.1
Deposits**	328.0	364.1	36.0	11.0
Capital and Reserves	56.6	56.8	0.2	0.4
Foreign Liabilities	9.3	9.0	-0.3	-3.2
Other Liabilities	28.4	29.7	1.3	4.6

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

**Includes interbank balances.

Source: Central Bank of Kenya

Profitability

Unaudited pre-tax profits of the banking sector increased by 2% to Ksh 1,325m for January 2003 from Ksh 1,302m in January 2002. The increase was mainly attributed to improved gains in foreign exchange and other income, coupled with a reduction in interest expense on deposits.

Building Societies

The combined total assets and deposits of the 4 building societies were Ksh 9.7bn and Ksh 7.5bn, respectively, while total advances amounted to Ksh 3.5bn at the end of January 2003. Income stood at Ksh 125m while expenses stood at Ksh 85m realising a profit before tax of Ksh 40m in January 2003.

Cash and Liquidity Ratio

The banking system remained stable in January and February 2003 as banking institutions observed the minimum liquidity ratio and cash ratio requirements (Table 13 and Chart 7).

The minimum requirement for liquidity assets to deposits liabilities ratio for commercial banks,

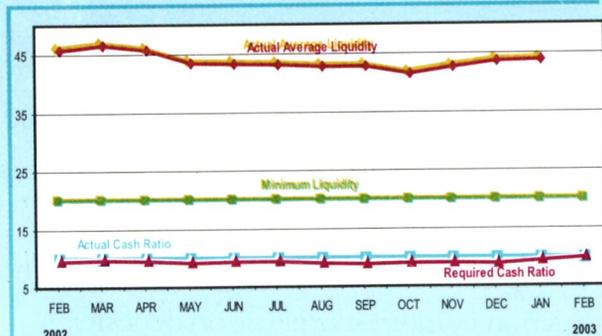
TABLE 13: CASH AND LIQUIDITY RATIOS* (%)

	2001		2002				2003	
	Dec	Jan	Feb	Jun	Sep	Dec	Jan	Feb
Commercial Banks								
Average Liquidity	46	46	46	44	43	44	44	
Minimum Liquidity	20	20	20	20	20	20	20	20
Cash Ratio - All Banks	9.9	9.7	9.7	9.5	9.1	9.0	9.5	10.0
Minimum Cash Ratio**	10	10	10	10	10	10	10	10
NBFIs								
Average Liquidity	57	59	56	59	52	56	67	
Minimum Liquidity	20	20	20	20	20	20	20	20
Cash Ratio	10.9	11.0	10.8	11.6	12.5	13.0	14.3	14.5
Minimum Cash Ratio**	10	10	10	10	10	10	10	10

* Monthly average liquidity and cash ratios

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

CHART 7



Source: Central Bank of Kenya

NBFIs, mortgage finance companies and building societies was maintained at 20% while the cash ratio requirement remained at 10%.

Commercial banks on average maintained 44% liquidity ratio for the second consecutive month in January 2003 as NBFIs' liquidity ratio increased to 67% from 56% in December 2002. The liquidity ratio for mortgage finance companies rose to 32% from 31% as that for building societies eased to 49% from 50%. The liquid assets comprised largely cash in till, balances with banks and investments in Government securities.

The ratio of cash balances held with the Central Bank to deposits liabilities of commercial banks rose to 10% in February from 9.5% in January 2003, while the cash ratio for NBFIs increased to 14.5% from 14.3% over the same period.

INTEREST RATES

Principal money market interest rates continued to decline in the year to February 2003 (Table 14 and Chart 8) as follows:

- The monthly average 91 days Treasury bill rate eased to 8.4% in January 2003 and 7.8 percent in February from 10.8% in January 2002. The fall reflected excess liquidity in the money market due to sluggish demand from the private sector and the successful restructuring of the Government domestic debt towards longer-term maturities. Reflecting the impact of these factors, the average inter-bank rate similarly eased from

10.3% in January 2002 to 7.1% in February 2003.

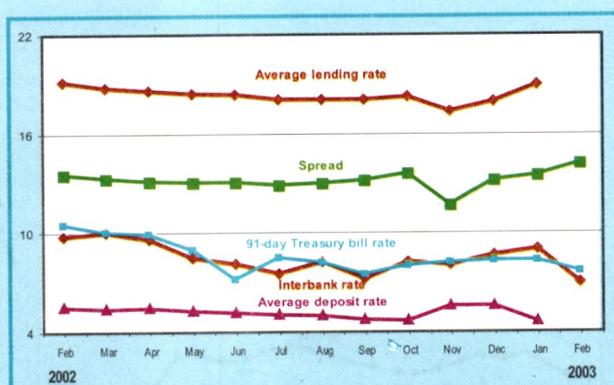
- The interest on three months time deposits with commercial banks declined to 5.5% in January 2003 from 6.9% in January 2002 while the average rate on savings deposits eased to 3.4% from 4.4% over the same period. The average deposit rate also fell to 5.5% from 5.7%. The real interest rates, however, turned negative in December 2002 and January 2003 due to acceleration in the overall month on month inflation to 6.5% and 7.5%, respectively.
- The decline in average lending rates was less spectacular, from 19.3% in January 2002 to 19.0% in January 2003. Consequently, the average interest spreads widened from 13.6 percentage points in January 2002 to 14.3 percentage points in January 2003.

TABLE 14: INTEREST RATES (% per annum)

	2001		2002						2003	
	Sep	Dec	Jan	Feb	Mar	Jun	Oct	Dec	Jan	Feb
Treasury bill rate*	12.4	11.0	10.9	10.6	10.1	7.3	8.1	8.4	8.4	7.8
Overdraft rate	19.6	20.0	19.3		18.8	18.5	18.9	18.6	18.5	
Interbank rate	10.7	10.4	10.3	9.8	10.1	8.2	8.3	8.7	9.0	7.1
Average lending rate (1)	19.4	19.5	19.3	19.2	18.9	18.4	18.3	18.3	19.0	
Average deposit rate (2)	6.3	5.7	5.7	5.5	5.4	5.2	4.7	4.7	4.7	
3-month deposit	7.4	6.9	6.9	6.8	6.9	6.1	5.5	5.4	5.5	
Savings rate	4.9	4.4	4.4		3.7	4.0	3.8	3.5	3.4	
Spread (1-2)	13.2	13.8	13.6	13.7	13.4	13.2	13.7	13.6	14.3	

* 91-Days Treasury bill rate

CHART 8



Source: Central Bank of Kenya

SHILLING EXCHANGE RATE

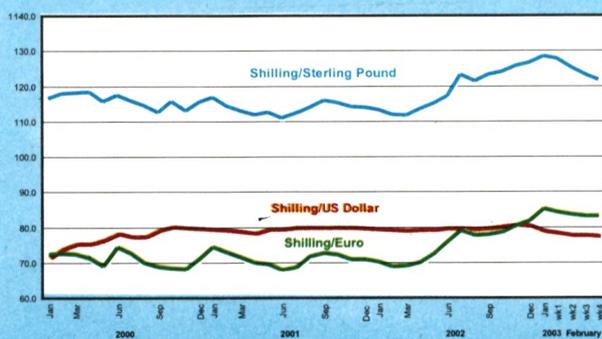
The shilling continued to gain against most major currencies except the Euro in February 2003. It gained against the US dollar, the Sterling Pound and the Japanese Yen to trade at an average of Ksh 76.8, Ksh 123.8, and Ksh 64.3, respectively, in February 2003 compared with an average of Ksh 77.7, Ksh 125.6, and Ksh 65.4 in January 2003. The shilling, however, weakened against the Euro and the South African Rand by 0.3% and 3.6%, respectively. Against the Tanzania shilling, the shilling gained by 3.8% to trade at Tsh 13.3 and against the Uganda shilling by 1.9% to exchange at Ush 24.5 in February 2003.

TABLE 15: SHILLING EXCHANGE RATE

	2001			2002				2003				
	Sep	Dec	Jan	Jun	Sep	Dec	Jan	February				
							Jan	wk 1	wk 2	wk 3	wk 4	Avg
US Dollar	78.9	78.7	78.6	78.7	78.8	79.5	77.7	77.4	76.8	76.6	76.5	76.8
Pound Sterling	115.5	113.2	112.8	116.6	122.5	126.1	125.7	127.2	124.7	122.5	121.0	123.8
100 Japanese Yen	66.5	61.9	59.3	63.7	65.2	65.1	65.4	64.5	63.5	64.3	65.0	64.3
Uganda Shilling*	22.2	21.9	22.2	22.9	22.9	23.2	24.1	24.2	24.4	24.6	24.9	24.5
Tanzania Shilling*	11.3	11.6	11.8	12.2	12.4	12.3	12.8	13.2	13.2	13.3	13.4	13.3
Euro	71.9	70.2	69.3	75.1	77.3	81.0	82.6	83.6	82.8	82.4	82.4	82.8
Nominal Effective Exchange Rate	79.4	80.4	81.1	80.5	81.2	76.9	77.9					
Real Effective Exchange Rate	95.2	95.9	94.4	95.1	94.5	91.6	98.6					

* Units of currency per Kenya shilling

CHART 9



Source: Central Bank of Kenya

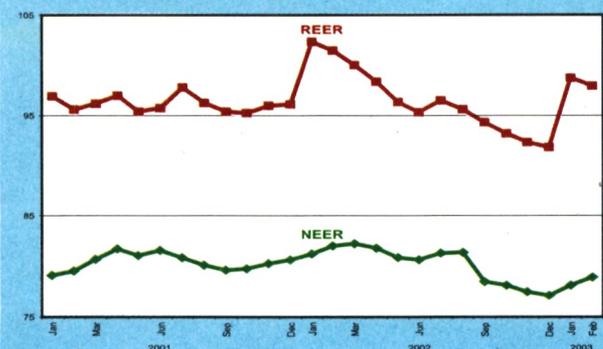
The shilling gained against the US dollar in February 2003 due to the general weakening of the US dollar and subdued demand for the dollar from the private sector while inflows from exports continued normally.

During the year to February 2003, the Kenya

shilling remained relatively stable against the US dollar to trade at an average of Ksh 78.5 compared with Ksh 78.6 in the year to February 2002. The shilling, however, lost against the Sterling Pound, the Euro and the Japanese Yen to exchange at an average of Ksh 120.4, Ksh 76.7 and Ksh 63.9, respectively, in the year to February 2003 compared with Ksh 112.7, Ksh 69.7 and Ksh 63.3 in a similar period the previous year. Against the South African Rand the shilling gained by 9.1% to trade at Ksh 7.9. The shilling also strengthened against the Tanzania shilling to exchange at Tsh 12.5 compared with Tsh 11.4 in the year to February 2002, and marginally against the Uganda shilling to exchange at Ush 23.2 in the year to February 2003 compared with Ush 22.3 in the previous year.

In nominal effective terms, that is trade-weighted against major partner currencies, the shilling depreciated by 2.1% in the year to February 2003 compared with an appreciation of 1.5% in a similar period to February 2002. In real terms, that is, after adjusting for inflation differential between Kenya and trading partners, the shilling depreciated by 1.5% in the year to February 2003 compared with 0.1% depreciation in the year to February 2002. The depreciation in the real effective shilling exchange rate in the year to February 2003 mainly reflected the depreciation in the nominal exchange rate.

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



Source: Central Bank of Kenya

BUDGETARY DEVELOPMENTS

Government budgetary operations in the first seven months of fiscal year 2002/2003 resulted in a deficit of Ksh 20.6bn or 2.1% of GDP on a commitment basis compared with Ksh 12.0bn deficit or 1.3% of GDP in a similar period in fiscal year 2001/2002 (Table 16 and Chart 11). On a cash basis, the outturn deteriorated to a deficit of Ksh 24.5bn or 2.3% of GDP from Ksh 18.6bn deficit in the same period of the previous year.

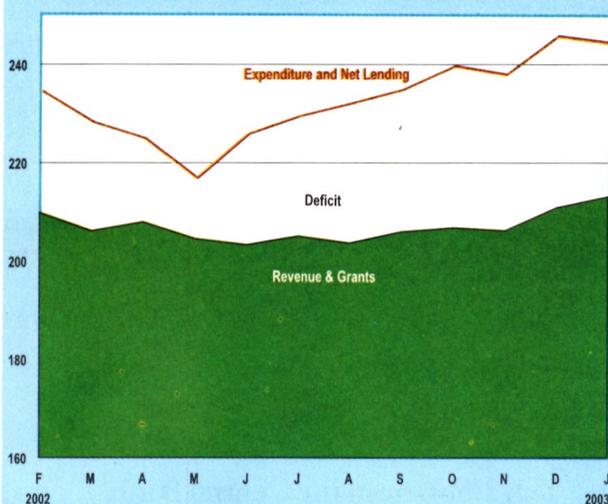
TABLE 16: BUDGET OUT-TURN (Ksh bn)

	FY 2001/02		FY 2002/03		Over(+)/ Below(-)
	Jan. Actual	Jan. Actual*	Jan. Actual*	Target	
1. TOTAL REVENUE & GRANTS	110.5	119.0	129.4	-10.4	
Revenue	107.1	114.3	120.6	-6.3	
Tax Revenue	92.1	98.6	104.2	-5.6	
Non Tax Revenue	6.0	7.4	7.2	0.2	
Appropriations-in-Aid	8.9	8.3	9.1	-0.9	
External Grants	3.4	4.7	8.7	-4.1	
2. TOTAL EXPENDITURE AND NET LENDING	122.4	139.6	154.5	-14.9	
Recurrent Expenditure	111.9	121.8	125.6	-3.9	
Development Expenditure	10.6	17.8	28.8	-11.0	
3. DEFICIT ON A COMMITMENT BASIS (1-2)*	-12.0	-20.6	-25.1	4.5	
	(-1.3)	(-2.1)	(-2.6)		
4. ADJUSTMENT TO CASH BASIS	-6.7	-3.9	0.0	-3.9	
5. DEFICIT ON A CASH BASIS*	-18.6	-24.5	-25.1	0.6	
	(-2.0)	(-2.3)	(-2.6)		
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-5.0	-4.7	0.0	-4.7	
7. FINANCING	13.7	19.8	25.1	-5.3	
Domestic (Net)	23.1	25.6	27.1	-1.5	
External (Net)	-9.5	-5.8	-2.0	-3.8	
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0	

* Provisional

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

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



Sources: Treasury and Central Bank of Kenya

Revenue and Grants

Government receipts from various sources amounted to Ksh 119bn in the first seven months of fiscal year 2002/2003. The receipts, which were Ksh 8.5bn higher than in a similar period in fiscal year 2001/2002 comprised Ksh 114.3bn revenue and Ksh 4.7bn external grants (Table 17).

TABLE 17: COMPOSITION OF GOVERNMENT REVENUE (Ksh bn)

	Jan-02 Ksh bn	Share %	Jan-03 Ksh bn	Share %
1. Revenue (2+3+4)	107.1	96.9	114.3	96.1
2. Tax Revenue	92.1	83.4	98.6	82.9
Income Tax	31.6	28.6	36.7	30.8
Value Added Tax	29.7	26.9	32.5	27.3
Import Duty	13.3	12.0	10.1	8.5
Excise Duty	17.5	15.8	19.3	16.2
3. Appropriations-in-Aid	8.9	8.1	8.3	6.9
4. Other Revenue	6.0	5.5	7.4	6.2
5. External Grants	3.4	3.1	4.7	3.9
TOTAL RECEIPTS (1+5)	110.5	100.0	119.0	100.0

Source: Treasury

The revenue comprised the following:

- Tax revenue of Ksh 98.6bn or 82.9% of the total government receipts and was Ksh 6.5bn higher than in the comparable period of fiscal year 2001/2002. The various taxes performed as follows:
 - ◆ Income tax collections increased to Ksh 36.7bn or 30.8% of Government receipts from Ksh 31.6bn in a similar period of fiscal year 2001/2002.
 - ◆ Value Added Tax (VAT) collections rose by Ksh 2.8bn, from Ksh 29.7bn in a comparable period in the last fiscal year to Ksh 32.5bn.
 - ◆ Import and excise duties collections declined to Ksh 29.4bn from Ksh

30.8bn in a similar period in fiscal year 2001/2002.

- Other revenue collections comprising investment income, license fees, fines and other levies amounted to Ksh 7.4bn and was Ksh 1.4bn higher than in a similar period in the previous fiscal year.
- Appropriations-in-Aid amounted to Ksh 8.3bn, which was Ksh 0.6bn lower than in a similar period in the previous fiscal year.
- External grants of Ksh 4.7bn compared with Ksh 3.4bn in the same period last fiscal year.

Expenditure and Net Lending

Government expenditure and net lending amounted to Ksh 139.6bn in the first seven months of fiscal year 2002/2003 compared with Ksh 122.4bn in a similar period in fiscal year 2001/2002 (Table 18). The major components of the expenditure were the following:

- Recurrent expenditure at Ksh 121.8bn or 87.3% of total expenditure was Ksh 9.9bn higher than in a similar period in fiscal year 2001/2002. The expenditure comprised the following:
 - ◆ Wages and salaries of Ksh 48.2bn, accounting for 34.5% of total Government expenditure. At this level, expenditure on wages and salaries was Ksh 3.4bn higher than in a comparable period in the previous fiscal year.
 - ◆ Ksh 22.3bn interest payment on government debt. The payments were Ksh 3.2bn higher than in a similar

period in fiscal year 2001/2002. Interest paid on domestic debt amounted to Ksh 16.0bn or 11.5% of total Government expenditure while that on foreign debt was Ksh 6.3bn or 4.5% of total Government expenditure.

- ◆ Other recurrent expenditures, mainly on operations and maintenance at Ksh 51.3bn was Ksh 3.3bn higher than in the corresponding period in fiscal year 2001/2002.
- Development expenditure amounted to Ksh 17.8bn or 12.7% of total government expenditure. At this level, development expenditure was Ksh 7.2bn higher than in a similar period in fiscal year 2001/2002.

TABLE 18: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh bn)

	Jan-02 Ksh bn	Share %	Jan-03 Ksh bn	Share %
Salaries & Wages	44.8	36.6	48.2	34.5
Total Interest	19.1	15.6	22.3	16.0
Domestic*	14.1	11.5	16.0	11.5
Foreign	5.0	4.1	6.3	4.5
Development	10.6	8.6	17.8	12.7
Others	48.0	39.2	51.3	36.7
TOTAL EXPENDITURE	122.4	100.0	139.6	100.0

*Includes commission and other charges paid to CBK

Source: Treasury

Financing

Government fiscal operations in the first seven months of the fiscal year 2002/03 resulted in a financing gap of Ksh 28.5bn. The gap was financed entirely through domestic borrowing by the government as follows (Table 19):

- Ksh 2.6bn from the Central Bank;

- Ksh 14.3bn from Commercial Banks; and
- Ksh 11.6bn from non bank sources.

The borrowed funds were utilized to increase Government deposits held at the Bank by Ksh 2.9bn, make a net external repayment of Ksh 5.8bn; and finance a Ksh 19.8bn budget deficit.

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

I. FINANCING REQUIREMENTS	Jan-02	Share	Jan-03	Share
	Ksh bn	%	Ksh bn	%
1. Budget deficit	13.7	41.9	19.8	69.6
2. External debt reduction	9.5	29.1	5.8	20.2
3. Domestic debt reduction	9.5	29.0	0.0	0.0
3.1 Central Bank (incl. items in transit)	9.5	29.0	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0	0.0	0.0
3.3 Non-bank sources	0.0	0.0	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0	2.9	10.2
TOTAL	32.6	100.0	28.5	100.0

II. FINANCING SOURCES	Jan-02	Share	Jan-03	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	23.0	70.5	28.5	100.0
3.1 Central Bank	0.0	0.0	2.6	9.1
3.2 Commercial banks	15.9	48.9	14.3	50.3
3.3 Non-bank sources	7.1	21.7	11.6	40.6
4. Reduction in GoK deposits at CBK	9.6	29.5	0.0	0.0
5. Privatisation proceeds	0.0	0.0	0.0	0.0
TOTAL	32.6	100.0	28.5	100.0

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 2.6bn to Ksh 47.5bn during the first seven months of fiscal year 2002/2003 from Ksh 44.9bn in June 2002 (Table 20). The debt stock includes Ksh 36.9bn in the frozen overdraft (OD) incurred prior to implementation of the Central Bank of Kenya (Amendment) Act which limited Government's overdraft facility at the Bank to not more than 5% of the recurrent

revenue reported in the latest audited Appropriation Accounts. Based on the new ceiling, the Government access to the facility is currently limited to Ksh 8.8bn. The actual level of utilization of the facility was Ksh 7.8bn, at the end of January 2003.

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

	Jun-02	Jan-03	Movement
Total Government Credit (1+2+3+4+5)	44.9	47.5	2.6
1. Overdraft	0.0	7.8	7.8
2. Rediscounted securities	0.3	0.0	-0.2
Treasury bills	0.3	0.0	-0.2
Treasury bonds	0.0	0.0	0.0
3. Non-interest bearing T/bills & bonds	36.9	36.9	0.0
4. IMF funds onlent to Government	2.1	2.1	0.1
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	7.8	7.8
Amount available	8.8	1.0	-7.8

Source: Central Bank of Kenya

The increase in net indebtedness to the Bank of Ksh 2.6bn was due to the following transactions:

- Ksh 7.8bn increase in Government utilization of the overdraft at the Bank.
- Ksh 0.1bn valuation adjustment in IMF funds which were on-lent to the Government.
- Ksh 5.0bn decline in cleared items awaiting transfer to the Paymaster General Account.
- Ksh 0.2bn decline in the Bank's holdings of rediscounted securities.

PUBLIC DEBT

Overall Debt

At the end of January 2003, the stock of total public debt was Ksh 632.7bn. This represented 64.3% of GDP and was Ksh 19.0bn higher than in June 2002. Of the Ksh 632.7bn total public debt, domestic debt was Ksh 264bn or 41.7% while foreign debt amounted to Ksh 368.7 bn, representing 58.3% of total public debt (Table 21).

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

	Jun-01*	Jun-02*	Jan-03**	Change 2002/03
EXTERNAL***				
Bilateral	132.3	130.0	126.3	-3.7
Multilateral	228.5	222.5	217.6	-4.9
Commercial Banks	29.4	24.0	23.6	-0.4
Export Credit	3.8	1.3	1.3	0.0
Sub-Total	394.0	377.7	368.7	-9.0
(As a % of GDP)	46.6	41.0	37.5	-3.6
DOMESTIC				
Banks	109.2	120.8	137.4	16.6
Central Bank	47.2	42.8	45.4	2.5
Commercial Banks	62.0	78.0	92.0	14.0
Non-banks	93.4	104.4	117.4	13.0
Non-bank Financial Inst.	3.9	2.8	3.0	0.2
Other Non-bank Sources	89.6	101.5	114.4	12.8
Non-residents	9.2	10.8	9.2	-1.6
Sub-Total	211.8	236.0	264.0	28.0
(As a % of GDP)	25.0	25.6	26.8	1.2
GRAND TOTAL	605.8	613.8	632.7	19.0
(As a % of GDP)	71.6	66.7	64.3	-2.4

* 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 by Ksh 28bn to Ksh 264.0bn during the first seven months of the fiscal year 2002/03 (Tables 22 and 23). The increase in the stock of domestic debt was due to the following transactions:

- Outstanding Government securities increased by Ksh 25.6bn from Ksh 226.8bn in June 2002 to Ksh 252.3bn in January 2003.
- Non-securitised debt increased by Ksh 2.4bn.

TABLE 22: GOVERNMENT DOMESTIC DEBT (Ksh bn)

	2001		2002			2003
	Dec	Jan	Jun	Sep	Nov	Dec
Total stock of Domestic Debt (A+B)	222.0	222.7	236.0	250.8	255.2	264.0
A. Government Securities	215.5	219.5	226.8	241.2	250.1	252.3
1. Treasury Bills (excluding Repo Bills)	96.8	93.1	82.1	86.6	84.6	85.8
Banking institutions	45.3	38.4	30.5	34.0	35.2	36.4
Others	51.5	54.7	51.5	52.6	49.5	49.4
2. Treasury Bonds	80.3	88.0	106.3	116.2	127.1	130.5
Banking institutions	32.8	37.7	47.1	51.4	56.8	57.3
Others	47.5	50.3	59.2	64.8	70.3	73.2
3. Long term Stocks	1.5	1.5	1.5	1.5	1.5	1.5
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.5	1.5	1.5	1.5	1.5	1.5
4. Non-interest bearing debt	36.9	36.9	36.9	36.9	36.9	36.9
Of which: Repo T/Bills	27.0	27.0	36.0	33.0	30.0	24.1
B. Others	6.5	3.2	9.2	9.6	5.0	11.7
Of which CBK overdraft to Government	0.0	0.0	0.0	3.0	1.1	4.2

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

TABLE 23: ANALYSIS OF DOMESTIC DEBT (Ksh bn)

	Jun-02	Jan-03	Change
Government securities	226.8	252.3	25.6
Treasury Bills**	82.1	85.8	3.8
Treasury Bonds	106.3	128.1	21.8
Of which: special bonds	6.4	9.2	2.8
Government Stock	1.5	1.5	0.0
Non-interest bearing debt	36.9	36.9	0.0
Others***	9.2	11.7	2.4
Of which: Overdraft at the Central Bank	0.0	7.8	7.8
Total Stock of Domestic Debt	236.0	264.0	28.0

** Excludes REPO Treasury bills

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

Source: Central Bank of Kenya

Treasury Bills

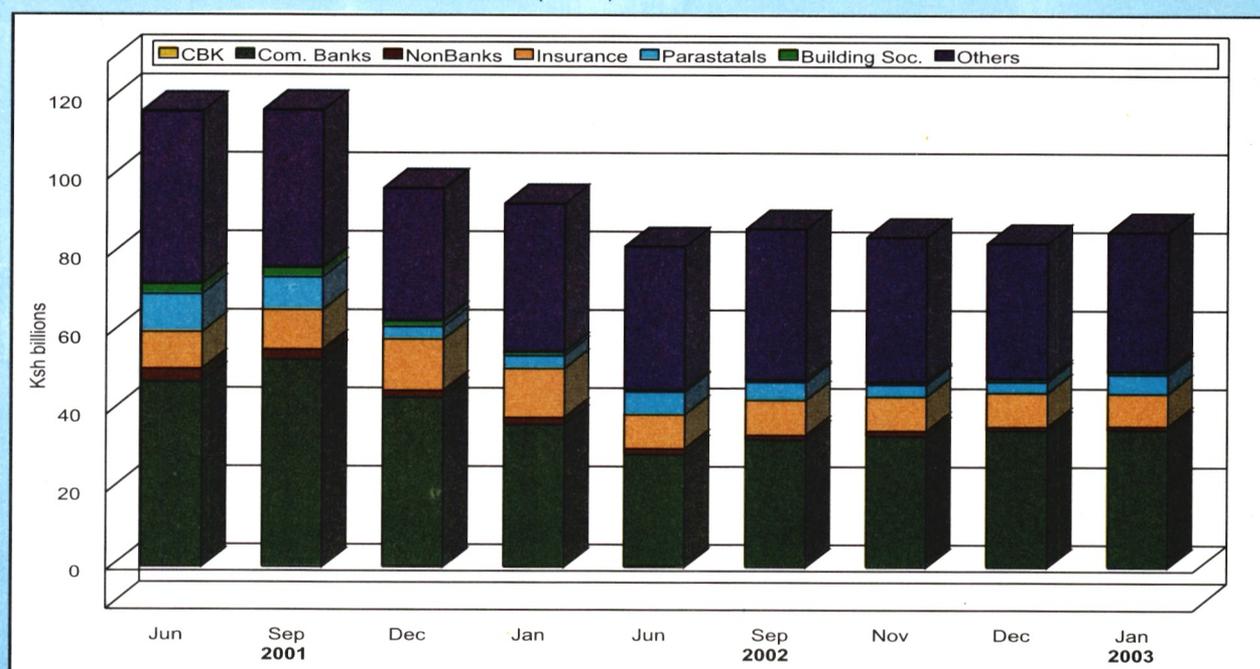
Treasury bills increased to Ksh 85.8bn in January 2003 from Ksh 82.1bn in June 2002 (Table 24 and Chart 12). The distribution of the Ksh 85.8bn stock of Treasury bills among various investors was as follows:

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

Holders	2002				2003							
	Jun	%	Dec	%	Jan	%	Jun	%	Dec	%	Jan	%
Banking Institutions	50.7	43.5	45.3	46.8	38.4	41.3	30.5	37.2	36.2	43.6	36.4	42.4
Central Bank	0.1	0.1	0.2	0.2	0.1	0.1	0.3	0.3	0.0	0.0	0.0	0.0
Comm. Banks	47.3	40.6	43.3	44.7	36.5	39.2	28.7	35.0	35.2	42.4	35.4	41.3
NBFIs	3.3	2.8	1.8	1.8	1.8	1.9	1.5	1.9	1.0	1.2	1.0	1.1
Insurance Companies	9.5	8.2	13.1	13.5	12.5	13.5	8.7	10.6	8.6	10.3	8.3	9.7
Parastatals	9.6	8.2	3.2	3.3	3.3	3.5	5.8	7.0	2.9	3.5	4.9	5.7
Of which: NSSF	0.2	0.2	0.5	0.5	0.8	0.9	1.1	1.4	1.6	1.9	1.8	2.1
Building Societies	2.6	2.2	1.5	1.6	1.0	1.1	0.4	0.5	0.7	0.8	0.8	0.9
Others	44.1	37.9	33.8	34.9	37.8	40.6	36.7	44.7	34.6	41.7	35.5	41.3
Total*	116.4	100.0	96.8	100.0	93.1	100.0	82.1	100.0	82.9	100.0	85.8	100.0

* Excludes repurchase order bills

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



Source: Central Bank of Kenya

- Banking institutions held Ksh 36.4bn or 42.4% of the bills. Of this, commercial banks and non-bank financial institutions held Ksh 35.4bn and Ksh 1.0bn worth of bills, respectively.
- The non-bank sector comprising insurance companies, parastatals, individuals and other corporate entities held Ksh 49.4bn or 57.6% of the bills.

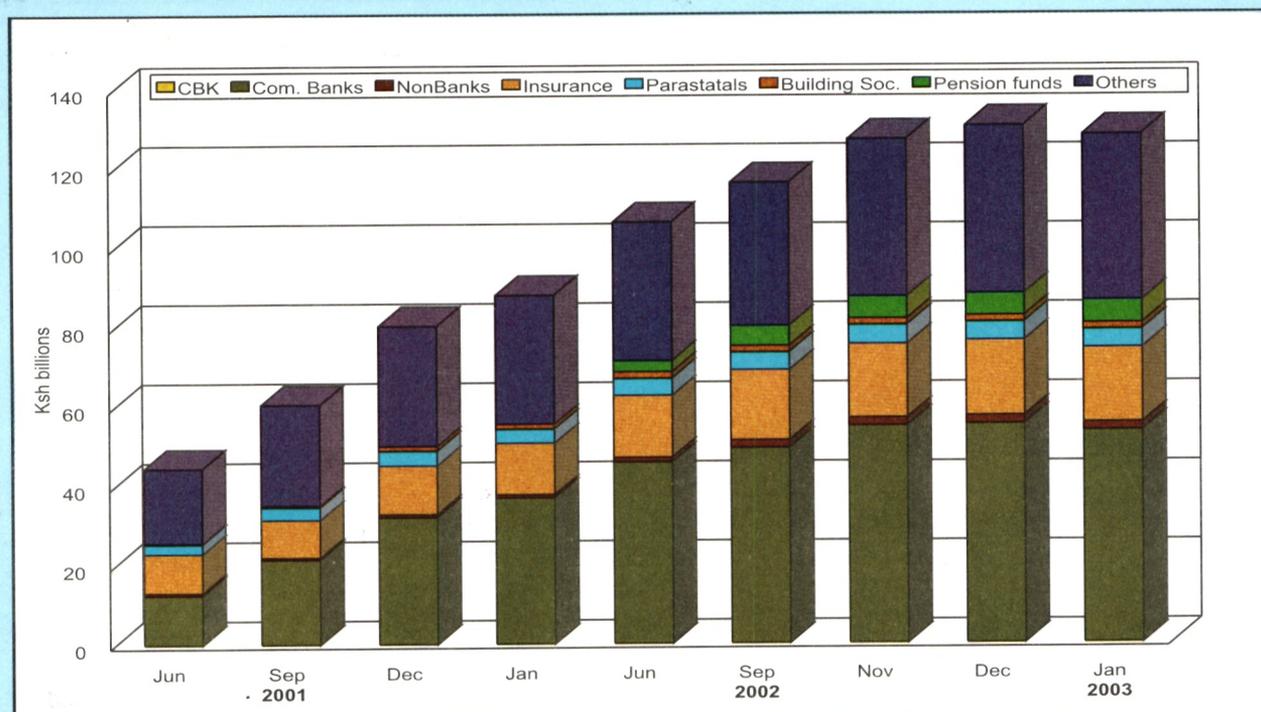
Treasury Bonds

The stock of Treasury bonds rose significantly to Ksh 128.1bn in January 2003 from Ksh 106.3bn in June 2002 (Table 25 and Chart 13). Between June 2002 and January 2003, Treasury bonds worth Ksh 20.7bn were redeemed, while bonds worth Ksh 42.5bn were issued. Holdings of the outstanding stock of Treasury bonds by various investors was as follows:

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

Holders	2001				2002				2003	
	Jun	%	Dec	%	Jun	%	Dec	%	Jan	%
Banking Institutions	13.1	29.4	32.8	40.8	46.9	44.1	57.3	43.9	55.5	43.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	12.5	28.2	32.0	39.9	45.8	43.1	55.2	42.3	53.5	41.7
NBFIs	0.6	1.2	0.8	0.9	1.1	1.1	2.0	1.6	2.0	1.6
Insurance Companies	9.9	22.3	12.3	15.3	15.6	14.7	19.1	14.6	18.9	14.7
Parastatals	2.5	5.6	3.7	4.6	4.4	4.1	4.6	3.5	4.6	3.6
Of which: NSSF	0.2	0.4	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Building Societies	0.1	0.3	1.1	1.4	1.6	1.5	1.6	1.2	1.6	1.2
Pension funds	0.0		0.0		2.9	2.7	5.5	4.2	5.7	4.4
Others	18.9	42.4	30.4	37.8	35.0	32.9	42.4	32.5	41.9	32.7
Total	44.5	100.0	80.3	100.0	106.3	100.0	130.5	100.0	128.1	100.0

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



Source: Central Bank of Kenya

- Commercial banks held Ksh 53.5bn;
- Non bank financial institutions held Ksh 2.0bn of bonds; and
- Other investors, including parastatals held bonds worth Ksh 72.6bn.

Government Long Term Stocks

The outstanding Government long-term stocks at the end of January 2003, remained unchanged from the June 2002 stock of Ksh 1.5bn. The National Social Security Fund held Ksh 0.8bn worth of the stocks while the balance of Ksh 0.7bn was held by the non-bank sector.

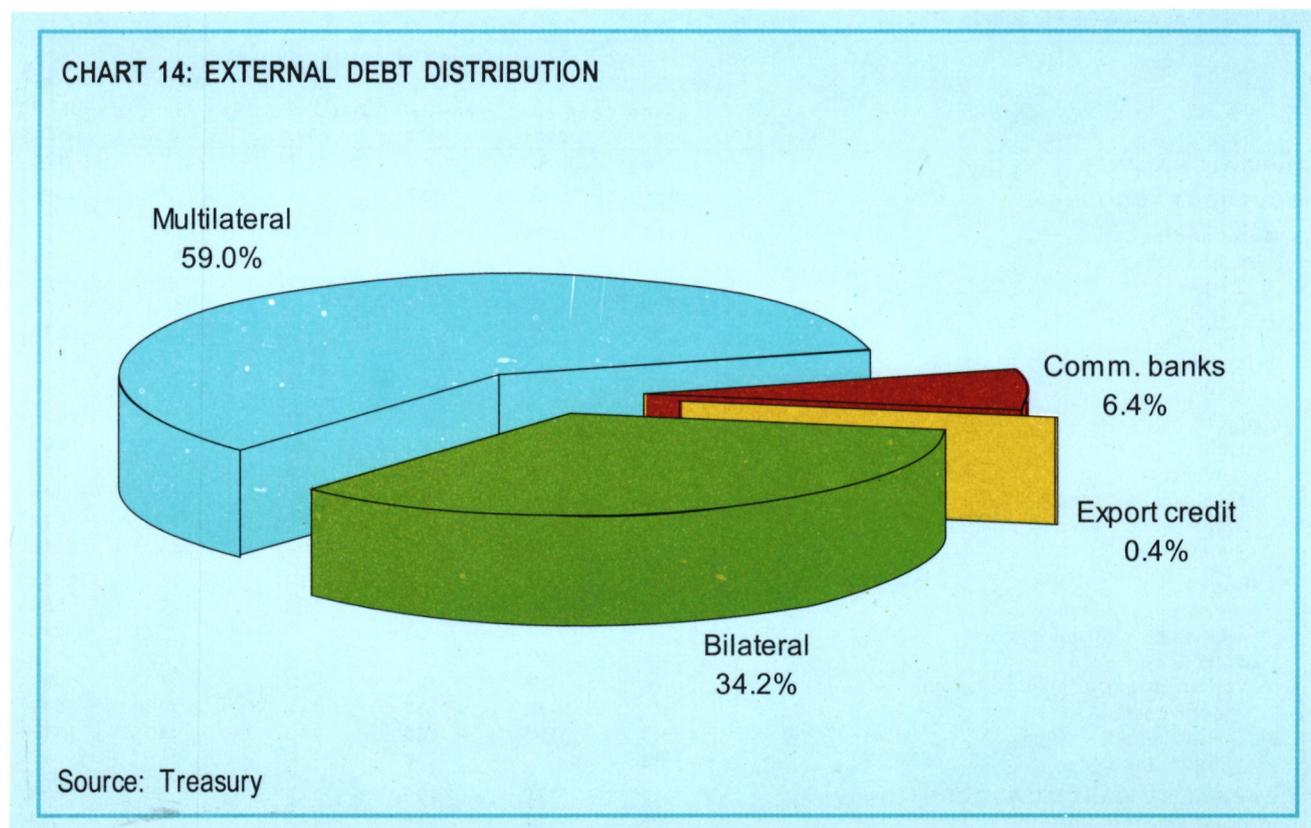
External Public Debt

External debt was estimated at Ksh 368.7bn, or US\$ 4.7bn, at the end of January 2003, a decrease of Ksh 9.0bn in the debt stock from the June 2002 level and was equivalent to 37.5% of GDP (Chart 14). The decrease in external debt during the review period followed:

- Ksh 4.5bn loan disbursements;
- Ksh 13.4bn loan repayments; and

- Ksh 0.1bn decrease in external debt stock owing to valuation changes related to appreciation in the shilling exchange rate.

Multilateral debt accounted for Ksh 217.6bn or 59.0% of the external debt while bilateral debt was Ksh 126.3bn or 34.2% of total external debt. Commercial loans and export credit amounted to Ksh 24.9bn or 6.8% of the debt.



BALANCE OF PAYMENTS

Kenya's overall balance of payments improved to US\$ 178m surplus in the year to January 2003 compared with a surplus of US\$ 4m in a similar period of the previous year. The improvement reflected a higher capital and financial account surplus, which more than offset an increase in the current account deficit (Table 26 and Chart 15).

Current Account

The current account deficit widened to US\$ 456m from US\$ 407m in the year to January 2002 reflecting US\$ 113m reduction in services receipts as the trade deficit narrowed by US\$ 64m reflecting mainly increased export receipts.

Merchandise

In the year to January 2003, the trade deficit narrowed to US\$ 1,507m from US\$ 1,571m in the same period of the previous year. The

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

	Quarters in Year to January 2003					Year to Jan** 2003
	Year to Jan 2002	Q1 Feb-Apr 2001	Q2 May-Jul 2001	Q3 Aug-Oct 2002	Q4 Nov-Jan** 2002	
	OVERALL BALANCE	4	62	45	-7	
I. CURRENT ACCOUNT	-407	-108	-154	-181	-13	-456
Merchandise	-1571	-325	-367	-435	-380	-1507
Exports (fob)	1906	524	596	418	477	2014
Coffee	89	26	28	17	12	83
Tea	438	115	116	96	103	430
Horticulture	242	74	57	62	84	278
Oil products	162	14	15	46	79	154
Other	976	293	379	197	199	1068
Imports (cif)	3477	848	962	853	858	3521
Oil	735	155	163	238	246	802
Chemicals	491	116	135	116	129	496
Manufactured goods	433	94	107	96	82	379
Machinery & transport equipment	792	171	201	149	159	679
Other	1026	312	357	254	242	1166
Services	1164	217	213	254	367	1051
Non-factor services (net)	531	97	112	180	208	596
Of which: tourism receipts	296	67	52	90	77	286
Income (net)	-142	-31	-36	-36	-21	-124
Of which: official interest income	-116	-25	-27	-18	-12	-81
Current Transfers	776	152	137	110	180	579
Private (net)	693	151	136	110	180	577
Public (net)	83	0	0	0	0	2
II. CAPITAL & FINANCIAL ACCOUNT	410	170	199	174	91	635
Capital Transfers (net)	68	17	30	29	8	84
Financial Account	342	154	169	145	83	551
Official, medium- & long-term	-197	11	9	-5	20	35
Inflows	168	74	63	52	79	268
Outflows	-365	-64	-54	-57	-58	-233
Private, medium- & long-term (net)	213	-36	-25	72	-65	-54
Commercial banks (net)	161	-41	-51	40	-49	-100
Other private, medium- & long-term (net)	52	5	26	31	-17	45
Short term and errors & omissions (net)	326	179	185	79	101	544
Gross Reserves	1442	1510	1588	1534	1651	1651
Official	1035	1087	1112	1096	1163	1163
in months of goods and non-factor services	3.1	3.4	3.5	3.3	3.4	3.4
Commercial Banks	406	423	476	438	487	487

* Revised to reflect the new BOP presentation format

** Provisional

Source: Central Bank of Kenya

improvement followed US\$ 107m growth in export earnings, which more than offset US\$ 44m increase in imports. The increase in imports was in oil, chemicals and miscellaneous imports, which grew by 9.1%, 0.9% and 13.7%, respectively. The increase in export earnings was attributed to higher earnings from horticultural and non-traditional exports. Receipts from

traditional exports, namely, coffee and tea, however, declined.

Services

The surplus in the services account decreased to US\$ 1,051m in the year to January 2003 from US\$ 1,164m in the year to January 2002 mainly due to reduced grants influx to both the private

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

and public sectors by US\$ 197m. Net non-factor service receipts however rose by US\$ 66m to US\$ 596m while net income payments declined by US\$ 18m to US\$ 124m. Receipts from tourism declined by US\$ 10m during this period.

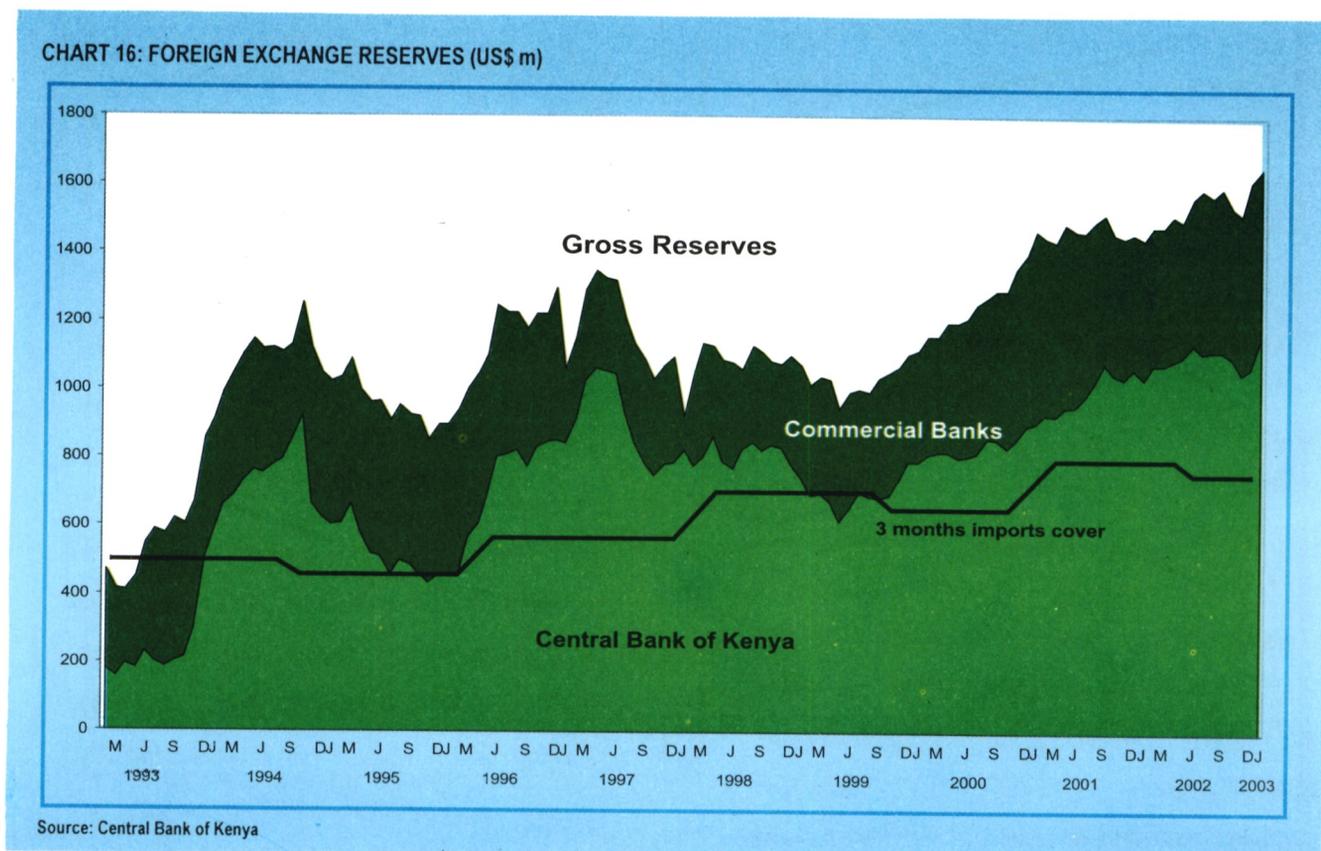
Capital and Financial Account

During the period under review, the capital and financial account surplus increased to US\$ 635m compared with US\$ 410m mainly reflecting an increase in the capital account by US\$ 16m and improved net official position by US\$ 232m. In the year to January 2003, official inflows rose from US\$ 168m to US\$ 268m while outflows declined from US\$ 365m to US\$ 233m. Net private medium and long-term capital, however, worsened from an inflow of US\$ 213m in the year to January 2002 to an outflow of US\$ 54m. This reflected increased commercial banks net foreign position by US\$ 261m as inflows of other private medium and long-term capital worsened

from US\$ 52m to US\$ 45m. Short-term capital flows (including net errors and omissions) increased from US\$ 326m in the year to January 2002 to US\$ 544m in the year to January 2003.

Foreign Exchange Reserves

Following the improvement in the overall balance of payments, official foreign exchange reserves increased to US\$ 1,163m, equivalent to 3.4 months of imports of goods and non-factor services at end of January 2003 compared with US\$ 1,035m or 3.1 months of import cover in January 2002 (Chart 16). Foreign exchange reserves of commercial banks also increased from US\$ 406m at end of January 2002 to US\$ 487m at the end of January 2003. The total foreign exchange reserves held by the banking system therefore increased by US\$ 209m to US\$ 1,651m at the end of January 2003 from US\$ 1,442m at end of January 2002.



STOCK MARKET

Activity at the Nairobi Stock Exchange (NSE) had mixed trends in February 2003 compared with January 2003. While trading at the equities market was varied, turnover at the bonds market and foreign investors board declined over the same period.

Equities Market

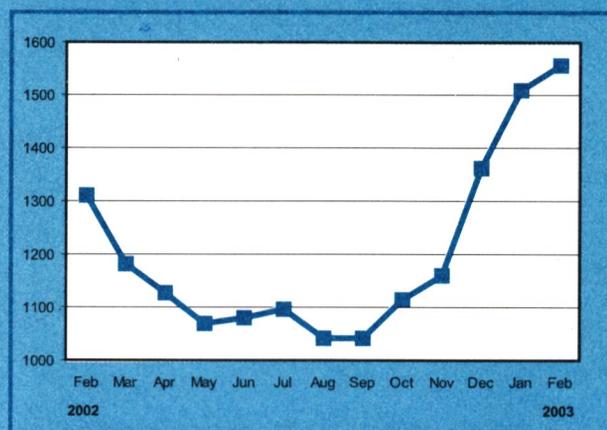
Performance at the equities market in February 2003 was as follows:

- The NSE share index rose by 3.12% to close at 1557.74 in February 2003 from 1510.63 in January 2003 (Chart 17).
- Market capitalization increased by Ksh 7bn or 5.54% to Ksh 130.1bn in February 2003 from Ksh 123.2bn in January 2003.
- The turnover value expressed as the proportion of the value of shares traded to market capitalization declined to 0.35% in February 2003 from 0.60% in January 2003.
- Total traded turnover declined by 38.7% to Ksh 454m while the number of transactions fell by 24.6% to 3,970 in February 2003.

Foreign Investors Board

Turnover at the Foreign Investors Board declined by Ksh 36.6bn or 34.4% in February 2003 from Ksh 55.7bn in January 2003. The transactions were entirely in foreign inflows as no foreign outflows were recorded.

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



Source: Nairobi Stock Exchange

The Bond Market

The value of bonds traded at the secondary market declined by 10.3% to Ksh 3.2bn in February 2003 from Ksh 3.8bn recorded in January 2003. The average yield on the bonds also declined to 11.3% in February 2003 from 12.1% in January 2003 reflecting the downward trend in the 91 day's Treasury bill rate during the month, reflecting excess liquidity in the domestic money markets.

REAL SECTOR

Introduction

The economy expanded by about 0.9% in 2002 compared with 1.2% in 2001 (Table 27 and Chart 18). The slowdown in economic growth in 2002 reflected the high cost of doing business attributed to dilapidated roads and inefficient power and telecommunications services. The favourable weather, stable macroeconomic conditions, and increased access to external

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

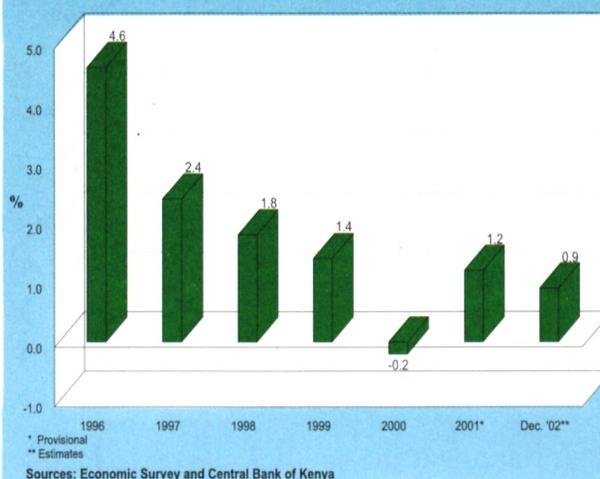


TABLE 27: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP		
	in 2001 (%)	2001/ ¹	2002/ ²
Agriculture	24.1	25,196	25,458
Manufacturing	13.0	13,649	13,739
Trade, Tourism & Hotels	12.7	13,247	13,340
Financial Services	10.6	11,055	11,212
Building & Construction	2.4	2,479	2,555
Transport & Communications	6.2	6,522	6,641
Government	14.7	15,287	15,353
Others of which	16.3	17,263	17,373
<i>Non-monetary Sector</i>	5.7	6,037	6,075
<i>Domestic Services</i>	2.9	3,081	3,091
<i>Ownership of Dwellings</i>	5.7	6,027	6,075
<i>Other</i>	2.0	2,118	2,132
Est. Real GDP (1982 Prices)	100.0	104,697	105,672
Nominal GDP (at Factor cost)	772,893		
Overall GDP Deflator	7.4		
GDP at Mkt Prices	895,278		
MAIN SECTORS	Annual Percentage Change		
Agriculture		1.2	1.0
Manufacturing		0.8	0.7
Trade, Tourism & Hotels		1.3	0.7
Financial Services		1.0	1.4
Building & Construction		-0.5	3.0
Transport & Communications		3.1	1.8
Government		0.7	0.4
Others		1.6	0.6
<i>Non-monetary Sector</i>		1.2	0.6
<i>Domestic Services</i>		0.6	0.3
<i>Ownership of Dwellings</i>		1.9	0.8
<i>Other</i>		1.0	0.6
Est. Real GDP Growth		1.2	0.9

Notes

¹ From the Economic Survey, 2002.

² Based on selected economic activities.

Sources: Central Bureau of Statistics and Central Bank of Kenya

markets were the driving force behind the modest economic performance in the year.

Agriculture

Major agricultural sub-sectors performed as follows in 2002 (Table 28):

- Horticultural export crops production increased by 22.6% compared with 0.5% decline in 2001. Consequently, export earnings from the crops increased to US \$ 349m in 2002 from US \$ 262m in 2001. The increase in production partly reflects the shift by farmers to the sector from other less profitable agricultural activities.
- Sugar cane output increased by 26.9% compared with a decline of 24.6% in 2001, following favourable weather conditions in 2002. Processed sugar similarly increased by 29.6% compared with a decline of 6.1% in the same period.
- Tea, pyrethrum and sisal output declined by 2.6%, 20.6% and 4.7%, respectively, in 2002 compared with 24.7%, 8.6% and 8.2% increases in 2001. The decline in tea production resulted from the inadequate rainfall in major growing areas at the beginning of 2002 while pyrethrum production was adversely affected by management problems.
- Coffee deliveries declined by 14.5% in 2002 compared with a decline of 44.4% in 2001. The sustained decline in coffee output reflected management problems in the sector as well as the low prices for the commodity. Coffee prices are, however,

expected to rise during the second half of 2003 due to the expected shortfalls in global supply in 2003.

TABLE 28: OUPUT GROWTH IN KEY CROPS (%)

Crop	2000	2001	2002
Tea	-5.0	24.7	-2.6
Horticulture	0.2	-0.5	22.6
Coffee	52.4	-44.4	-14.5
Sugar cane	-10.7	-24.6	26.9
Pyrethrum	-5.0	8.6	-20.6
Sisal	-2.3	8.2	-4.7

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

Manufacturing

The key performance of the manufacturing sector was as follows:

- Electricity consumption, a major input in the sector, increased by 2.5% compared with an increase of 10.2% in 2001 (Table 29). The large increase in 2001 reflected the restoration of power supply in the year from the low levels of 2000.
- Heavy diesel oil consumption, mainly used by industrial plants, increased by 2.2% in 2002 compared with a decline of 1.8% in 2001.
- Exports of manufactured goods increased by 10.2% during the first ten months of 2002 compared with an increase of 11.8% in the same period of 2001. The increase in manufactured exports followed improved access to regional markets within the East African Community (EAC) and COMESA and partly exports to the United States of

America (USA). Export of textiles and fabrics, in particular, increased substantially by 127.4% compared with 32.1% increase in the first ten months of 2002 reflecting improved access to the United States market facilitated by the African Growth and Opportunities Act (AGOA). Exports of cement increased by 50.9% during the period. Other manufactured goods that have benefited from the wider regional markets include vegetable oils and galvanised sheets.

- Imports of chemicals and related products increased by 4.7% during the first ten months of 2002 compared with an increase of 10.2% in a similar period of 2001. Imports of other inputs such as crude materials, minerals fuels and lubricants, however, declined since the manufacturing sector continued to operate below capacity.

TABLE 29: PRODUCTION OF SELECTED MANUFACTURES (%)

Item	2001	2002
Galvanised sheets (MT)	5.5	10.0
Mineral water ('000 litres)	4.7	7.5
Soda ash (MT)	25.0	2.1
Cement (MT)	-3.5	13.3
Assembled vehicles (units)	-14.8	-20.1
Processed Sugar (MT)	-6.1	29.6

Source: Central Bureau of Statistics and Kenya Sugar Authority

Building and Construction

Building and construction improved in 2002. The consumption of cement a major input in the sector increased by 13.6% compared with 2.1% increase in 2001. The improvement in the sector's performance was mainly in private sector

construction as most public sector projects had stalled due to budgetary constraints following reduction in external financial inflows. The expected resumption of donor support in 2003 will, however, support public investments particularly in roads rehabilitation and uncompleted government housing projects.

Transport, Storage and Communications

The performance of key sub-sectors in 2002 was as follows (Table 30):

- Passengers passing through Jomo Kenyatta International Airport (JKIA) increased by 8.7% compared with an increase of 9.4% in 2001.
- Cargo carried by the Kenya Railways Corporation increased by 1.2% compared with a decline of 7.9% in 2001.
- Subscriptions of mobile phones increased to 1.3 million in December 2002 from 720,000 in March 2002.
- The consumption of petroleum fuels increased by 0.1% in 2002 compared with a decline of 2.9% in 2001.
- However, cargo handled through the Port of Mombasa declined by 0.3% compared with an increase of 16.2% in 2001, while
- Throughput by the Kenya Pipeline Company (KPC) also declined by 2.0% compared with an increase of 1.2% in 2001.

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

	2001	2002
Cargo by KPA (MT)	16.2	-0.3
Cargo by KR (MT)	-7.9	1.2
Passengers thro JKIA	9.4	8.7
Throughput by KPC	1.2	-2.0
Consumption of fuels	-2.9	0.1

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

Trade, Restaurants and Hotels

Tourism, the major component in Trade, Restaurants and Hotels sector, performed in 2002 as follows:

- Tourists arriving through Jomo Kenyatta International Airport (JKIA), Moi International Airport, Mombasa (MIAM) and by cruise ships increased by 1.2% in 2002 compared with a decline of 3.2% in 2001.
- Tourism earnings are, however, estimated to have declined to US \$ 285.7m in 2002 from US \$ 308.5m in 2001.

Performance in the industry is projected to improve following the new aggressive marketing strategies by the government such as the diversification of products by marketing the Western Kenya tourist circuit and the selling of specialised products. In addition, the relocation of hawkers and street boys is also expected to enhance security in our streets. However, the lack of sufficient resources to finance the rehabilitation and maintenance of infrastructure such as hotels

and parks, together with the current war in the Gulf, will continue to hamper growth in the sector.

Financial Services

The banking sector remained relatively stable in 2002 despite the reduction in total pre-tax profits by Kshs 1.0bn to Kshs 8.8bn from Kshs 9.9bn. The decline in the sector's profitability was mainly attributed to reduced interest income. Total expenses, however, declined by 1.3bn in 2002, mainly due to a fall in interest paid on deposits and a fall in provisions made for bad and doubtful debts.

Economic Prospects

The economic recovery is expected to gather momentum in 2003 and continue into the medium term particularly with the combined implementation of various reform measures. Measures against corruption and promotion of good governance has been given a strong priority by the government thereby generating confidence among potential investors. The improved growth is also expected from increased regional and international trade. In particular, the country is likely to export more manufactured products to countries in EAC with the expected harmonisation of tariff regimes in January 2004 within the framework of the AGOA initiative, trade in non-apparel exports including handicrafts, fresh fruit, flowers, leather and leather products are also expected to pick up.

BALANCE SHEET OF THE CENTRAL BANK OF KENYA

(Amounts in Ksh Millions)

	Jan. 2002	Jan. 2003	Movement
ASSETS	147,100	162,420	15,320
Foreign Exchange	81,334	89,248	7,914
Advances and Discounts to Banks	2,093	3,811	1,718
Investment in Government Securities	1,437	1,114	-323
Government Accounts	39,600	47,475	7,875
Overdraft to Government	-	7,799	7,799
Clearing Account	715	626	-89
IMF funds onlent to Government	1,968	2,133	165
Non-interest Bearing Government Debt	36,917	36,917	0
Debtors	1,881	2,048	167
Retirement Benefits	289	287	-2
Property and Equipment	606	795	189
Other Assets	19,860	17,642	-2,218
Revaluation Account	18,642	17,642	-1,000
Times Tower	1,218	-	-1,218
LIABILITIES	147,100	162,420	15,320
Currency in Circulation	50,055	57,427	7,372
Repo Securities	19,100	16,041	-3,059
Deposits	70,439	73,448	3,009
Government	28,753	27,854	-899
Commercial Banks			
Kenya	23,142	25,890	2,748
External	28	19	-9
Non -bank Financial Institutions	409	189	-220
IMF	9,757	9,077	-680
Other Public Entities and Project A/Cs	8,350	10,419	2,069
Other Liabilities and Provisions	407	330	-77
Capital and Reserves	7,099	15,174	8,075
Capital	1,500	1,500	0
General Reserve Fund	4,248	7,952	3,704
Period's Surplus	1,351	5,722	4,371

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 January 2002 and January 2003:

Assets

Foreign exchange increased by Ksh 7,914m to Ksh 89,248m from Ksh 81,334m.

Advances and discounts to commercial banks increased by Ksh 1,718m to Ksh 3,811m.

Government accounts increased by Ksh 7,875m to Ksh 47,475m in January 2003, mainly on account of increased utilization of overdraft by Government by Ksh 7,799m, which was partially offset by Ksh 89m decline in the Clearing account.

Other assets, comprising revaluation account and the Times Tower, decreased by Ksh 2,218m to Ksh 17,642m.

Liabilities

Currency in circulation increased by Ksh 7,372m to Ksh 57,427m from Ksh 50,055m.

The stock of **repo securities** decreased by Ksh 3,059m to Ksh 16,041m.

Deposits increased by Ksh 3,009m to Ksh 73,448m due to Ksh 2,748m increase in commercial banks deposits. Similarly, deposits of other public entities increased by Ksh 2,069m. Deposits of IMF, however, fell by Ksh 680m.

Other liabilities and provisions decreased by Ksh 77m to Ksh 330m.

Capital and reserves increased by Ksh 8,075m to Ksh 15,174m in the year to January 2003 due to Ksh 3,704m increase in the general reserve fund and Ksh 4,371m increase in the period's surplus.

