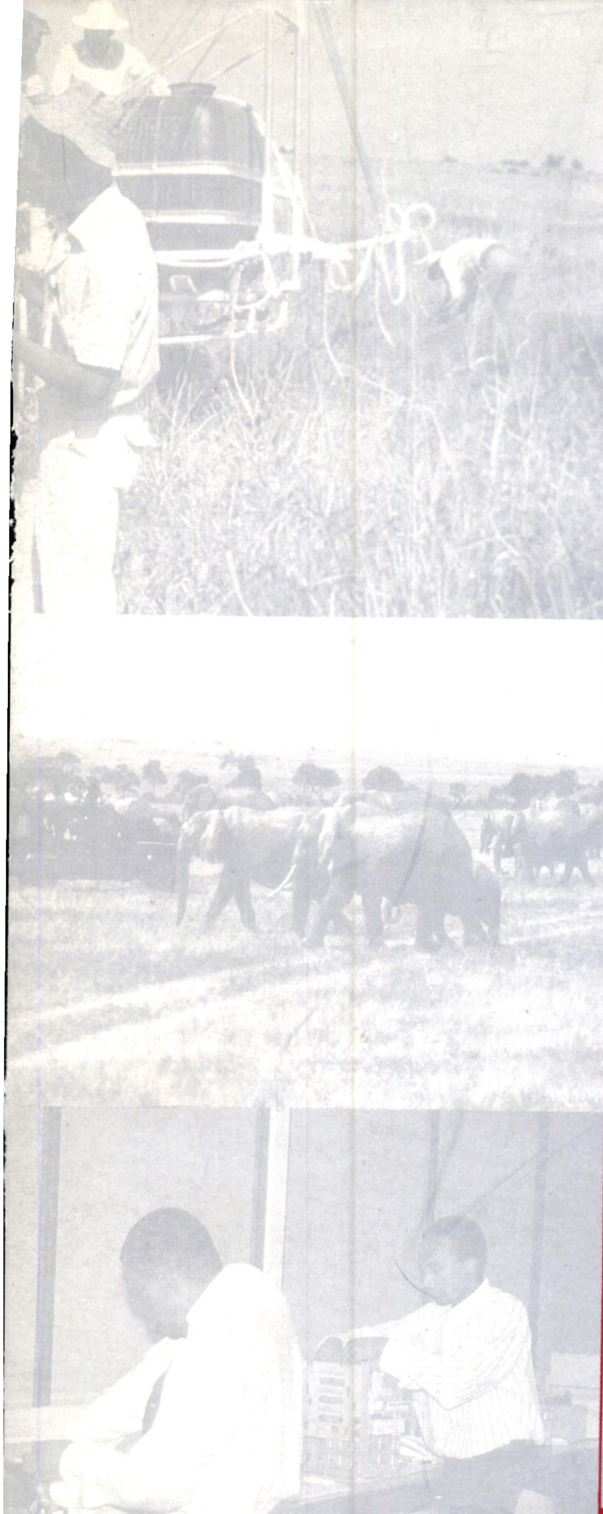

MONTHLY ECONOMIC REVIEW

CENTRAL BANK OF KENYA

FEBRUARY
1997

OBJECTIVES OF THE CENTRAL BANK OF KENYA

The Central Bank of Kenya's objectives are laid down in the Central Bank of Kenya (Amendment) Bill, 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'S MONTHLY ECONOMIC REVIEWS

These Monthly Economic Reviews, prepared by the Central Bank of Kenya, are available on the Internet starting with the April 1996 edition at address: **http:/www.arcc.or.ke/cbk.htm**

Email:benkikuu@arcc.or.ke or cbkresd@arcc.or.ke

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SELECTED ANNUAL ECONOMIC INDICATORS, 1991-1996

INDICATOR	1992	1993	1994	1995	1996 Prov.	1997 Est.
1. POPULATION						
Numbers in Millions	25.2	26.0	26.8	27.5	28.3	29.1
Growth (%)	3.5	3.4	3.6	3.2	3.2	3.1
2. NATIONAL ACCOUNTS (US$M)						
GDP at Factor Cost*:						
Current Prices	6824.0	4659.0	5813.0	7570.0	7784.0	8541.0
Constant Prices (1982 = 100)	2691.0	1498.0	1595.0	1826.0	1728.0	1800.0
Real GDP Growth (%)	0.5	0.1	3.0	4.9	4.8	4.5
Per Capita Income (US Dollars)	271.0	179.0	217.0	275.0	283.0	295.0
Gross National Savings as % of GDP	13.8	17.1	18.5	16.6	18.5	17.5
Gross Domestic Investment a % of GDP	17.4	18.4	19.6	22.0	23.4	21.4
3. NATIONAL INCOME (SHS BN)						
Current Prices	243.6	296.0	371.8	443.3	529.4	605.5
4. CONSUMER PRICE INFLATION (%)						
Average Annual	27.3	45.6	28.8	1.6	9.0	8.5
Month-on-Month	33.7	54.7	6.6	6.9	10.8	7.3
5. STOCK MARKET						
NSE Price Index	1167.3	2513.7	4559.4	3468.9	3114.1	
Trade Turnover (%)	1.7	1.1	2.3	3.0	4.0	
6. GOVERNMENT BUDGET (SHS BN)**						
Budget Deficit as % of GDP	-2.5	-8.2	-6.1	-1.0	-0.2	0.2
Budget Deficit	-7.1	-28.9	-24.1	-4.6	-0.9	0.8
Revenue and grants	63.2	73.6	106.8	130.6	151.3	164.8
Expenditure	70.3	102.5	130.9	135.2	152.2	164.0
7. MONEY AND CREDIT (SHS BN)						
Money Supply (M3)	126.6	161.6	205.8	231.6	268.5	278.2
Money Supply (M2)	99.3	124.8	162.7	193.0	238.9	
Reserve Money	25.7	42.1	55.3	71.2	77.0	78.0
Total Domestic Credit	142.2	153.5	204.2	249.5	272.5	278.8
Government	42.2	50.1	76.1	78.5	74.8	69.3
Others	100.0	103.4	128.1	171.0	197.7	209.5
8. BALANCE OF PAYMENTS (US$ M)						
Overall Balance	-264.0	439.0	102.0	-139.0	409.0	220.0
Current Account	-98.0	99.0	50.0	-395.0	-47.0	-81.0
Exports (f.o.b)	1004.0	1186.0	1482.0	1876.0	2050.0	2181.0
Imports (c.i.f)	1595.0	1493.0	2044.0	3066.0	2919.0	3082.0
Services (net)	493.0	406.0	612.0	795.0	822.0	820.0
Capital Account	-166.0	340.0	52.0	256.0	456.0	301.0
9. FOREIGN RESERVES (US$ M)	336.0	857.0	1050.0	897.0	1304.0	1515.0
Official	177.0	508.0	625.0	458.0	860.0	1075.0
Months of Import Cover (official)	1.3	4.1	3.7	1.8	3.5	4.2
Commercial Banks & public	159.0	349.0	425.0	439.0	444.0	440.0
10. FOREIGN DEBT AS % OF GDP	98.1	129.0	106.0	86.0	80.0	76.0
Debt Service Ratio (%)***	26.6	31.0	26.2	24.8	23.9	21.4
11. EXCHANGE RATE (Kshs/US$)	32.2	58.0	56.1	51.4	57.1	-

* Based on Economic Survey, 1996

** Fiscal year ending 30th June, on a commitment basis

*** As a percentage of exports of goods and services

Source: Economic Survey and Central Bank of Kenya

SELECTED SIX MONTHS ECONOMIC INDICATORS

INDICATOR	1995 Dec	July	Aug.	Sept.	Oct.	Nov.	Dec.*	Jan.'97*
1. INFLATION (%)								
Average Annual								
- **Underlying**	6.9	7.4	7.4	7.5	7.6	7.9	8.4	8.7
- Overall inflation	1.6	6.2	7.1	7.8	8.4	8.7	9.1	9.2
Month-on-Month								
- **Underlying**	4.2	9.0	8.1	8.7	9.0	10.5	11.1	9.7
- Overall inflation	6.9	11.2	11.0	10.4	10.8	11.4	10.8	10.9
3-Month Annualised								
- **Underlying**	2.3	10.2	9.0	4.8	6.8	12.6	11.9	8.6
- Overall inflation	3.0	20.1	18.5	9.2	4.4	3.8	4.6	9.4
2. INTEREST RATES(%)								
91 Days Treasury Bill	21.7	21.8	21.6	22.5	24.3	21.1	21.6	21.6
Overdraft	29.2	27.9	28.0	28.0	28.4	28.9	28.9	
3. STOCK MARKET								
NSE Price Index	3468.9	3150	3074	3089.8	3056.0	3042.1	3114.1	
Trade Turnover (%)	0.15	0.28	0.38	0.30	0.50	0.36	0.44	
4. CUMULATIVE GOVERNMENT BUDGET (SHS BN)**								
Budget Deficit(-)/Surplus(+)	-5.3	-6.2	-9.0	-7.3	-7.9	-6.9	-4.4	
Revenue and grants	67.3	9.4	19.4	35.3	49.0	61.4	75.4	
Expenditure: of which,	72.6	15.6	28.4	42.6	56.9	68.3	79.8	
Domestic Debt Interest payment	10.8	2.3	4.6	6.7	9.2	10.9	13.4	
External Debt Interest Payment	5.2	1.3	1.8	3.0	3.6	3.8	4.4	
5. MONEY AND CREDIT (SHS BN)								
Money Supply (M3)	231.6	260.2	259.9	255.5	257.8	261.9	268.5	
Money Supply (M2)	193.0	225.0	225.8	221.0	223.9	228.9	238.9	
Reserve Money	71.2	74.3	72.9	73.7	73.5	77.0	77.0	
Total Domestic Credit	249.5	265.9	266.4	270.3	267.1	272.3	272.5	
Government	78.5	78.0	77.9	79.0	75.8	76.7	74.8	
Private Sector	171.0	187.9	188.5	191.3	191.3	195.6	197.7	
6. MONEY AND CREDIT (Annual % Change)								
Money Supply (M3)	22.5	22.0	19.6	16.1	18.2	16.0	15.9	
Money Supply (M2)	18.6	33.6	32.1	26.1	29.4	23.7	23.8	
Reserve Money	28.7	33.7	26.5	25.0	20.9	16.0	8.1	
Total Domestic Credit	22.2	16.0	14.5	17.0	10.9	9.6	9.2	
Government	3.1	2.8	3.4	10.6	-0.6	-5.3	4.7	
Private Sector	33.5	22.5	19.8	19.9	16.1	16.8	15.6	
7. BALANCE OF PAYMENTS (US$ M)								
Overall Balance	-139.0	400	349	322	404	442	409	
Current Account	-395.0	-186	-186	-166	-114	-77	-47	
Exports (f.o.b)	1876.0	2003	2007	2041	2042	2032	2050	
Imports (c.i.f)	3066.0	3010	2926	2884	2882	2874	2919	
Services (net)	795.0	821	733	677	726	765	822	
Capital Account	256.0	586	535	488	518	519	456	
8. FOREIGN RESERVES (US $ M)	897.0	1227	1226	1179	1233	1225	1304	
Official	458.0	814	824	777	832	847	860	
Months of imports cover (official)	1.8	3.2	3.4	3.2	3.5	3.5	3.5	
Commercial banks and public	439.0	413	402	402	391	378	444	
9. AVERAGE EXCHANGE RATE								
Kshs/US$	55.8	57.3	57.0	56.4	55.9	55.6	55.2	54.7
Kshs/Sterling Pound	86.0	89.1	88.4	88.0	88.5	92.4	91.8	91.5
Kshs/Yen (100)	54.8	52.4	52.9	51.4	49.8	49.6	48.4	46.8
Kshs/DM	38.3	38.1	38.5	37.5	36.6	36.6	35.5	34.3

Provisional as at January 28,1997

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

Source: Economic Survey and Central Bank of Kenya

REAL INTEREST RATES IN KENYA

Real interest rates in Kenya are high partly due to the corporate sector which has been shy to access off-shore borrowing citing exchange risk as an excuse. Below we reproduce in full, a recent article on the above subject which appeared in the "**SUNDAY NATION**" newspaper of 26th January, 1997.

The writer, Mr. Dominic Ngigi, was commenting on the remarks made by the Governor of the Central Bank, during the closing ceremony of the Institute of Certified Public Accountants symposium on 17th January, 1997. The Governor had stated that:- "The current high levels of interest rates in Kenya can come down if we reduce the local demand for credit by encouraging large corporations, particularly those in the export sector to borrow off-shore in view of the low levels of interest rates there. Overseas interest rates are around 8% compared with the local rate of around 30%. The fear of the exchange risk has been exaggerated".

" WHY INTEREST RATES ARE SO HIGH:
A COMMENTARY BY MR. DOMINIC NGIGI

The recent advice by Central Bank Governor Micah Cheserem to large Kenyan companies to borrow off-shore so that the demand for loans can fall and with it interest rates, has given a new dimension to the cyclical debate on why credit remains so expensive while the inflation rate is relatively low.

In the past, it has been said that credit is expensive because the Government has been selling Treasury Bills and Bonds at high interest rates to finance its deficit and to mop up excess liquidity with the aim of curbing inflation.

However, the behaviour of large companies and how they manage their debts has never really been considered a factor in the debate until now.

But these big companies can no longer be ignored because their aggregate demand for loan funds runs into billions of shillings annually.

After four years of active intervention by the CBK in the money market through fiscal and monetary policies, inflation has been tamed to a single-digit level.

But because the Government, through the CBK, still competes with commercial banks for public deposits, large corporate firms, both foreign and domestic, cannot escape the blame for aiding and abetting the expensive cost of borrowing money locally.

Indeed, prior to the collapse of Communism, mixed market economies in Latin America and Asia used to ban multinational companies from borrowing locally.

This option is no longer possible in Kenya because of liberalisation (the CBK Governor cannot force these companies to borrow off-shore, he can only suggest it).

That is probably why many eminent African economists have begun arguing that central banks should be given power to force the big firms to borrow off-shore, but within a very restricted time-frame.

This move, they argue, would counter the timidity of the corporate sector, through its conservative boards of directors, who have proved averse to taking calculated risks, thus failing to take advantage of the winds of financial liberalisation for the benefit of their shareholders.

That it has to take the CBK Governor, a civil servant, to remind the private sector decision-makers of the importance of seeking this cheaper source of financing is indeed a damning indictment of Corporate Kenya and its lack of foresight, says a senior stockbroker with years of experience in the equity market.

Shareholders, he adds, have become very informed and will increasingly ask boards of directors of listed companies why they have technically mismanaged their investments by not seeking optimum returns for their capital.

The current trend of board chairmen attributing reduced profitability to high interest rates charged on domestic bank credit will no longer be tolerated by shareholders following the repeal of the Exchange Control Act, says the broker.

Indeed, money market analysts have begun saying the slow rate at which money is being borrowed off-shore is the prime reason why banks continue charging such high rates on credit, as it only pushes up demand for loans from desperate borrowers.

An examination of these rates reveals that it costs between 8 and 12 per cent to borrow overseas while it costs a whopping 22 per cent for the best corporate customer to borrow from a local bank.

It makes a lot of sense, therefore, that top decision-makers at the financial director and corporate boardroom levels should apply a little more imagination.

This is particularly important for companies that derive at least 20 per cent of their revenue from exports, as even in the event of a sudden depreciation of the shilling, they will have a hedge.

In fact, the shilling has persistently appreciated against all the major hard currencies for quite a while now.

Financial hedging instruments exist, just like in any other money market. According to analysts, such risks can be insured, proving that there really is no excuse for the corporate sector not to seek these cheaper sources of credit.

These developments demonstrate that despite the liberalisation of the economy, a misplaced assumption arose to the effect that the corporate sector would be so efficient it would automatically borrow off-shore to lessen the demand on domestic bank credit.

But this did not happen. The direct result of this is that even multinational companies such as those in the oil sector have been paying bank charges in the region of shs 200 million annually because they fear borrowing off-shore, thus worsening the already sky-high demand for loans from the local market and fuelling the high interest rates.

This development has adversely affected the local small borrower, who a few years ago, would not have tolerated paying a 22 per cent prime rate, which is what large Kenyan companies now gladly accept.

The average borrower has to pay significantly higher costs of as much as 30 per cent a year since his business is not worth as much to a financial institution.

Because Kenyan banks have positioned themselves to serving the corporate sector almost exclusively, if this sector borrowed off-shore, the banks would have no choice but to pay more attention to their retail (mwananchi) customers and the interest rates would automatically fall.

Mr. Cheserem must have had such a scenario in mind when he addressed members of the Institute of Certified Public Accountants of Kenya (ICPAK) at the Safari Park Hotel, Nairobi, recently, during which he cautioned that the costs of lending were becoming a huge burden on the economy.

Indeed, economists have concurred with him, saying money meant for productive activities was being diverted to other uses, thus breeding massive distortions and inefficiency in commerce and industry.

Clearly, banks would not want to lose their lucrative corporate lending business to off-shore financial institutions.

Therefore, the impetus for such change must come from decision-makers in corporate boardrooms while they are deciding where to borrow and at what interest rate, to finance their operations".

In the light of the above commentary, we urge Boards of Directors, Financial Directors and all those responsible in Kenya's corporate world to think and act globally in managing credit arrangements so that the current levels of interest rate charges in their Profit and Loss Accounts can come down for the benefit of their shareholders in particular and the Kenyan economy in general.

INFLATION

Introduction

In the January 1997 Monthly Economic Review, it was noted that the measure of inflation which was reported in the past is based on the general consumer price index (CPI). The CPI measures price movements caused by the stance of monetary and fiscal policies in addition to the effects of transitory factors such as drought and the unprecedented increases in the prices of imports. To enhance vigilance on monetary policy, it was noted that another set of data on prices will be reported under the sub-title "underlying inflation".

Unlike the general CPI, the underlying inflation index measures the price movements caused purely by policy factors. The data is analysed in order to monitor accurately the role and effectiveness of monetary policy on inflation.

The policy implication is that the monetary policy stance is tightened if inflation stems largely from policy related factors. This is in contrast to a situation in which inflation is driven mainly by non policy factors, such as the increase in food prices following protracted drought.

Underlying Inflation

The underlying inflationary pressures eased marginally in January 1997. The underlying month-on-month rate of inflation declined to 9.7% in January 1997 from 11.1% in December 1996. Similarly, the underlying 3-months annualized rate of inflation fell to 8.6% from 11.9% during the same period. The underlying average annual rate however, edged up marginally to 8.7% in January 1997 from 8.4% in December 1996 (Table 1 and Chart 1).

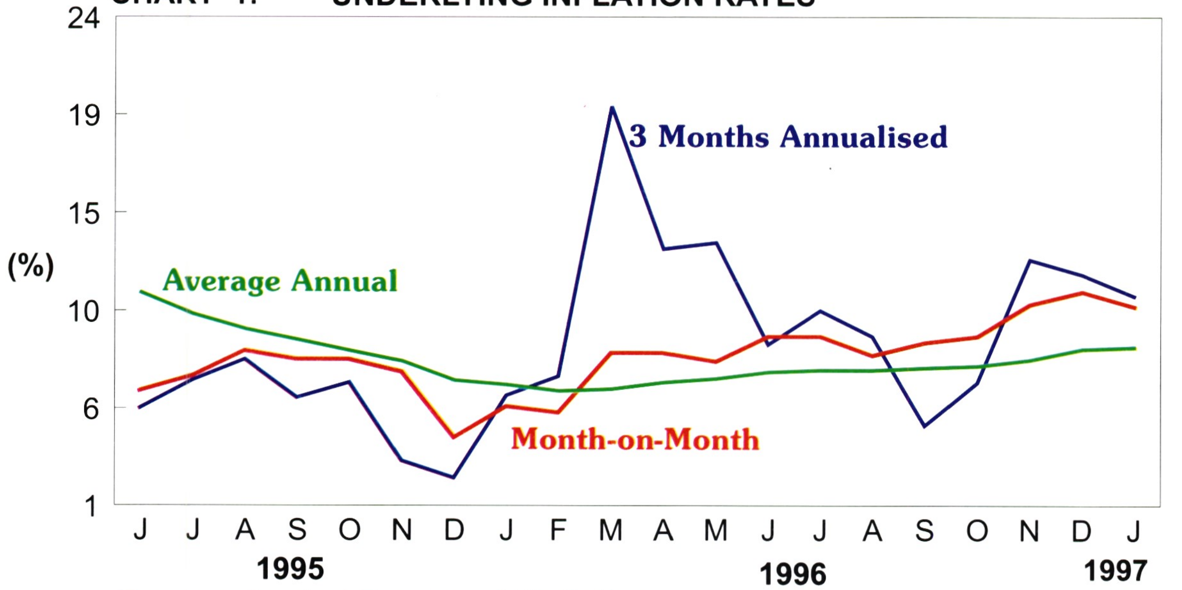
The marginal decline in the underlying rates of inflation follows a period in which the expansion in money supply has been steadily declining, particularly during the last quarter of 1996. The decline in the expansion of money supply has slowed down the growth in aggregate demand as observed in the private sector borrowing, and has thereby moderated the upward pressure on prices.

TABLE 1: UNDERLYING INFLATION RATES (CPI) (%)

1996	Jan	Feb	Mar	Jun	Sept	Dec
3 Months Annualised	6.2	7.1	19.8	8.6	4.8	11.9
Month-on-Month	5.7	5.4	8.2	9.0	8.7	11.1
Average Annual	6.7	6.4	6.5	7.3	7.5	8.4
1997						
3 Months Annualised	8.6					
Month-on-Month	9.7					
Average Annual	8.7					

Source: Central Bureau of Statistics

CHART 1: UNDERLYING INFLATION RATES



Source: Central Bureau of Statistics

Overall Inflation

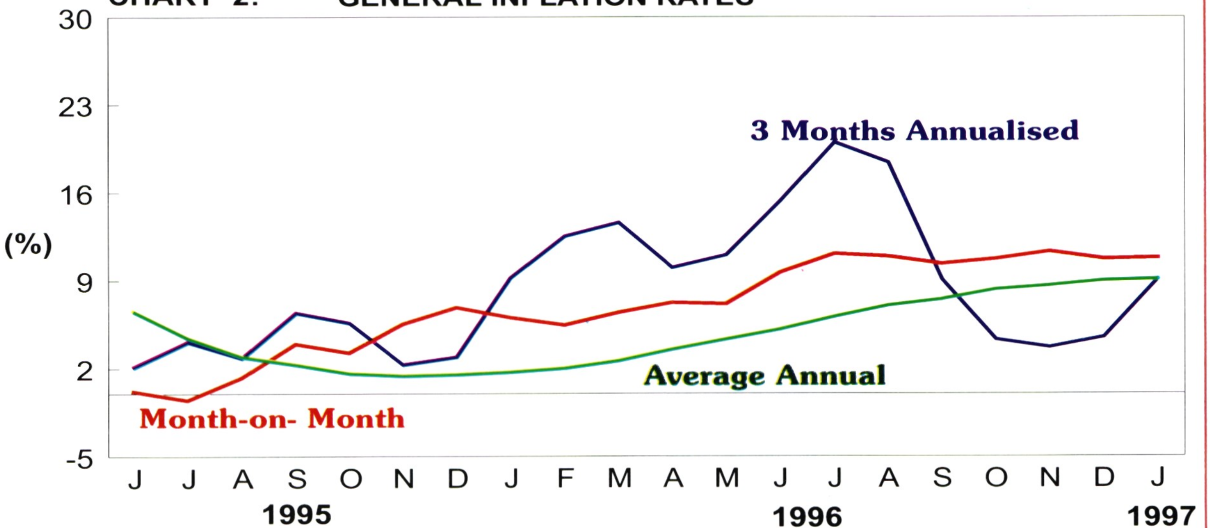
The overall rate of inflation in January 1997 almost remained at the same level as in December 1996. The month-on-month inflation reached 10.9% in January 1997 from 10.8% in December 1996. The average annual and the 3-months annualised inflation however, increased marginally to 9.2% and 9.4% from 9.1% and 4.6% respectively during the same period (Table 2 and Chart 2).

TABLE 2: GENERAL INFLATION RATES (CPI) (%)

1996	Jan	Feb	Mar	Jun	Sept	Dec
3 Months Annualised	9.3	12.7	14.5	15.4	9.2	4.6
Month-on-Month	6.4	5.7	6.5	9.7	10.4	10.8
Average Annual	1.8	2.2	2.8	5.3	7.6	9.1
1997						
3 Months Annualised	9.4					
Month-on-Month	10.9					
Average Annual	9.2					

Source: Central Bureau of Statistics and CBK Calculations.

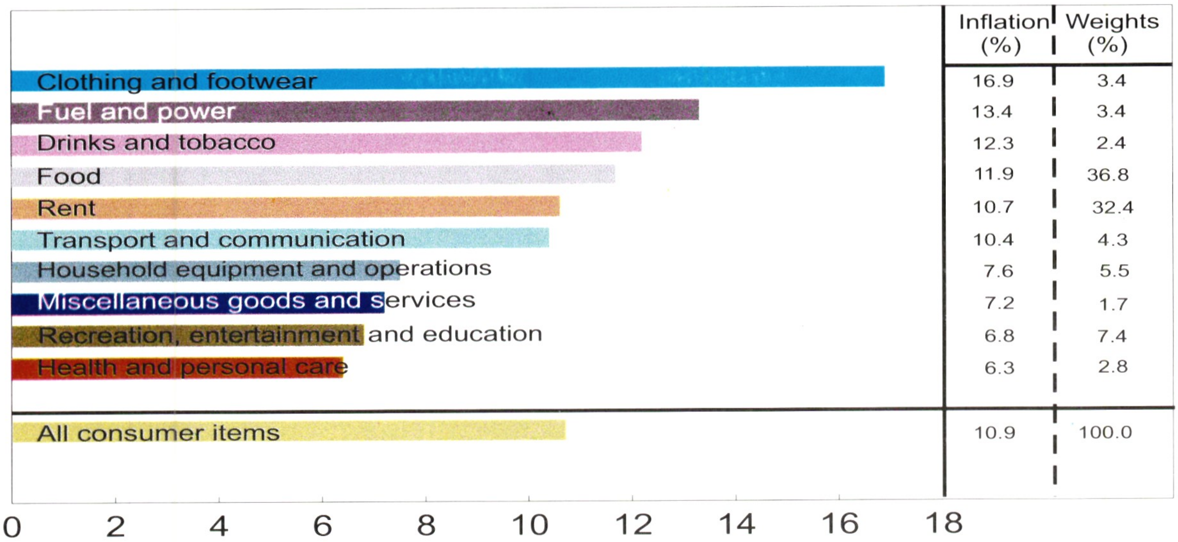
CHART 2: GENERAL INFLATION RATES



Source: Central Bureau of Statistics

The marginal increase in overall inflation index is transitory in nature and mainly affected the lower and upper income groups. The increase is partly attributed to non policy factors, in this case the decrease in the supply of basic foods especially maize and maize products and fruits and vegetables following the prevailing dry weather in January and partly due to the increases in the international prices of crude oil (Chart 3).

CHART 3: CHANGES IN CONSUMER PRICES (JAN 1996 TO JAN 1997)



Source: Central Bureau of Statistics and CBK calculations

Policy Factors Explaining Trend in Inflation

The decline in the underlying rate of inflation is mainly explained by the prevailing tight monetary stance that has significantly slowed down the expansion in money supply, especially in the last quarter of 1996. The slight appreciation of the shilling exchange rate has also partly contributed to slowdown in inflation by dampening shilling price increases in imports.

Outlook on Inflation

The month-on-month rate of inflation is expected to decline to approximately 7.0% by April 1997. This requires that the expansion in broad money supply (M3) be constrained to an annual rate of not more than 16.0%. To enhance the effectiveness of monetary restraint, concerted efforts are required to ensure that the Government's budget deficit is reduced from the current level of 2% of GDP to a surplus by the end of fiscal year 1996/97 as projected.

INTEREST RATES

The average interest rate on the 91 days Treasury bills rose by 0.1 of a percentage point to 21.6% in January 1997. The average interbank rate however, fell by 0.2 percentage points to around 15.8% from 16.0% in December 1996. The average overdraft interest rate continue to remain fairly stable at 28.9%, the same level as November 1996. The average 3 months deposit interest rate rose to 16.0% in December from 15.7% in November 1996 while the savings interest rate gained 0.25 of a percentage point to 11.2% in December 1996 (Table 3 and Chart 4). For the first time, the Central Bank issued Treasury bonds with a floating interest rate which was based on the twelve weeks moving average of the 91 days Treasury bill.

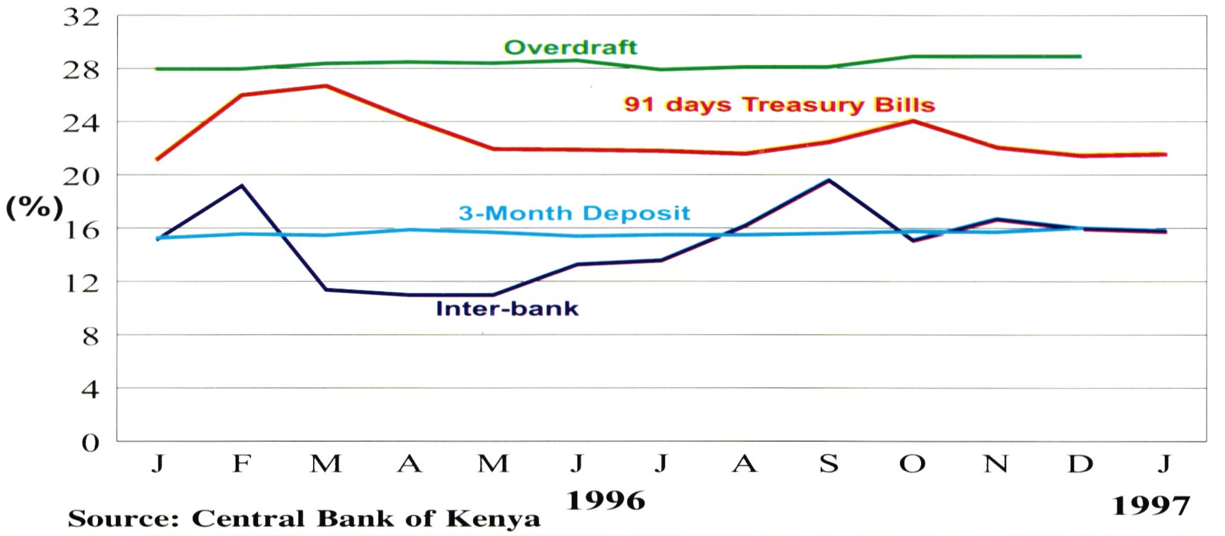
TABLE 3: TREASURY BILL, OVERDRAFT, DEPOSIT, SAVINGS AND INTER-BANK LENDING RATES

	1995	1996					1997
	Dec	Jun	Sep	Oct	Nov	Dec	Jan
Overdraft	29.2	28.6	28.1	28.9	28.9	28.9	28.9*
Treasury Bill**	21.7	21.9	22.5	24.1	22.1	21.5	21.6*
Inter-bank	20.6	13.3	19.6	15.1	16.7	16.0	15.8*
3-Month Deposit	14.3	15.4	15.6	15.8	15.7	16.0	
Savings	9.5	10.7	10.7	10.8	11.0	11.2	

** 91-days Treasury bill yield * Provisional

Source: Central Bank of Kenya

CHART 4: TREASURY BILL YIELD, OVERDRAFT, DEPOSIT AND AVERAGE INTER-BANK INTEREST RATES



Source: Central Bank of Kenya

THE SHILLING EXCHANGE RATE

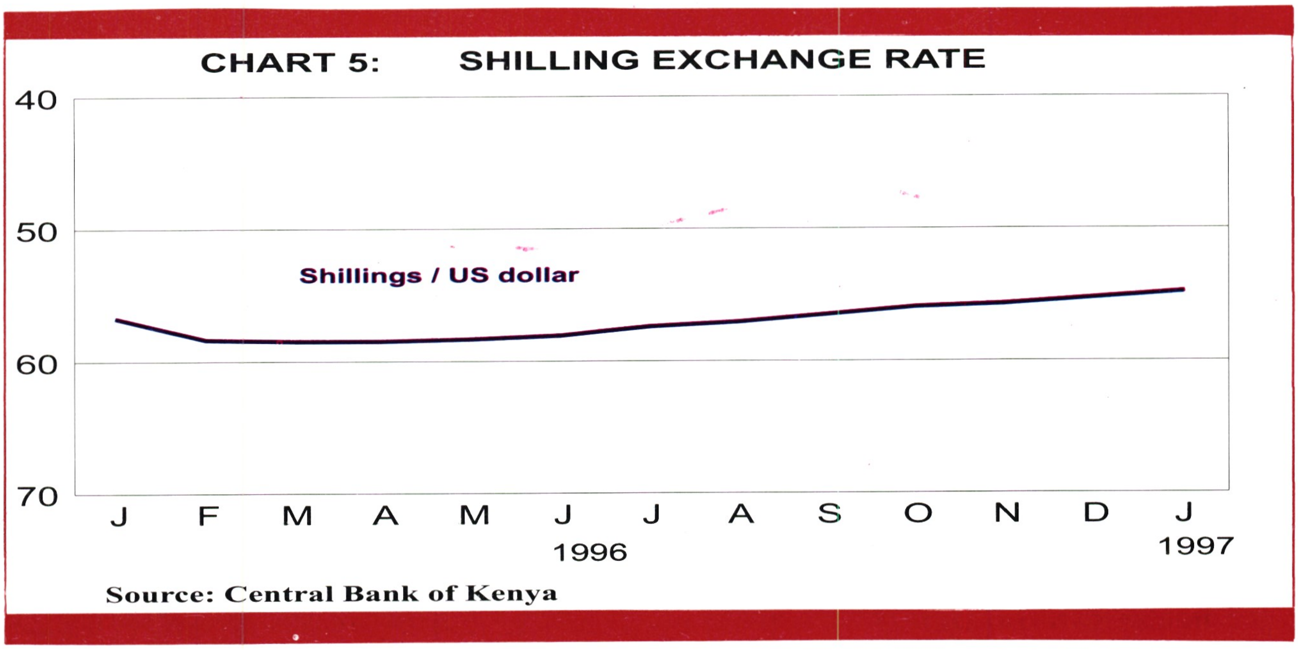
The shilling continued to gain against all the major international currencies during the month of January 1997. This follows the continued tight monetary policy stance that has driven the domestic interest rates to high levels compared with those prevailing in foreign countries. Consequently, the strong capital inflows have led to strengthening of the shilling, inspite of the Bank's purchases in the interbank foreign exchange market.

Table 4 and Chart 5 show the shilling exchange rate vis-a-vis the major international currencies and the Uganda and Tanzania shillings.

TABLE 4: SHILLING EXCHANGE RATES

Month	US Dollar		Pound Sterling		Deutschemark		100 Japanese Yen		Uganda Shilling*		Tanzania Shilling*	
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
Jan	56.71	54.74	86.79	91.50	38.74	34.32	53.72	46.75		19.0		10.90
Mar	58.41		89.25		39.35		55.19		17.43		9.28	
Jun	57.99		89.42		37.97		53.27		17.79		10.33	
Sep	56.43		88.02		37.50		51.39		19.03		10.47	
Dec	55.15		91.82		35.54		48.44		19.08		10.80	

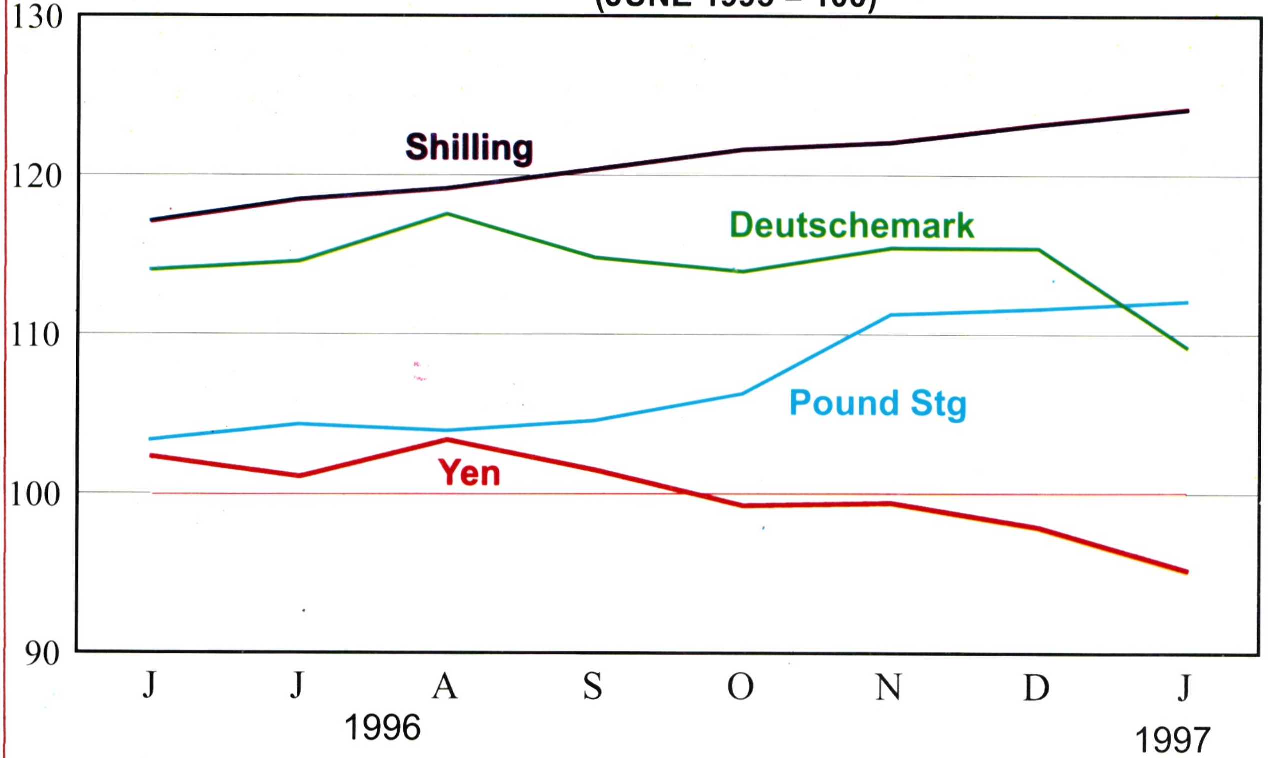
* Units of currency per Kenya Shilling
Source: Central Bank of Kenya



On average, the Kenya shilling traded at shs 54.7 per US Dollar, shs 91.5 per Sterling pound, shs 34.3 per Deutschemark and shs 46.8 per 100 Japanese yen in January compared to shs 55.2 per US dollar, shs 91.8 per Sterling pound, shs 35.5 per Deutschemark and shs 48.4 per 100 Japanese yen in December 1996. The nominal effective exchange rate of the shilling, that is, the trade weighted average shilling exchange rate against major currencies strengthened by 3.1% in January 1997. It however, remained stable against both the Uganda and the Tanzania shillings over the same period.

In the international currency market, the dollar gained against major currencies in January 1997. This development was triggered by uncertain political events in Britain in the case of the Sterling pound and poor prospects of economic recovery in Germany and Japan in the case of the Deutschemark and the Japanese yen, respectively. The strengthening of the dollar against these currencies was also reinforced by the strong US Treasury bond market following signs of improvements of the US economy (Chart 6).

CHART 6: EXCHANGE RATE INDICES AGAINST THE US DOLLAR (JUNE 1995 = 100)



Source: Central Bank of Kenya

MONEY AND CREDIT

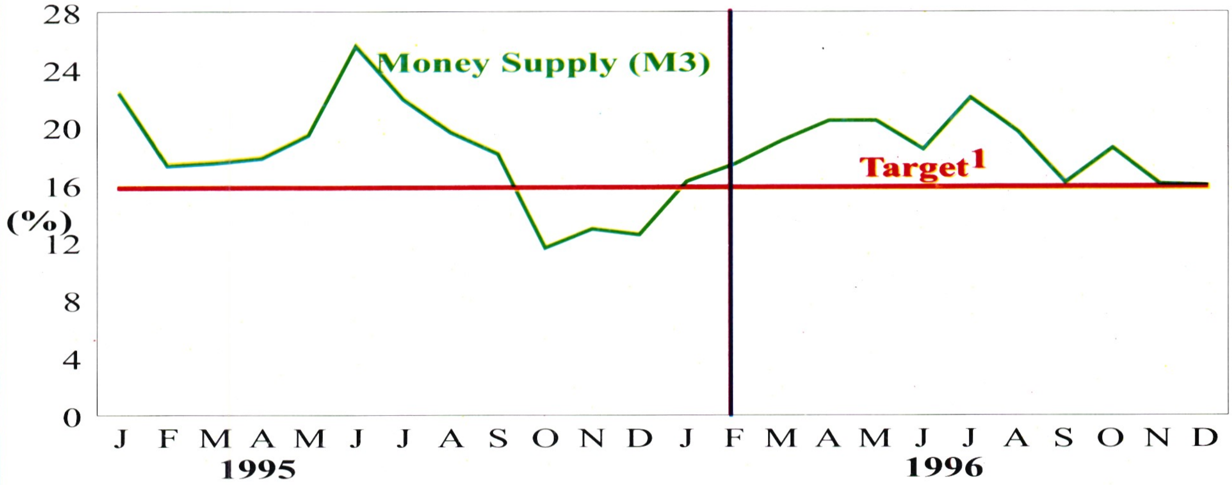
Domestic liquidity increased more rapidly in 1996 with the money supply (M3) rising by 15.9%. However, the twelve months M3 expansion in December 1996 was the slowest in 1996. The money stock at shs 268.5 bn in December 1996 was shs 0.4 bn above the December target of shs 268.1bn (Table 5 and Chart 7).

TABLE 5: MONEY SUPPLY (M3): annual percentage change 1995-1996

	1995		1996					
	Sep	Dec	Mar	Jun	Sep	Oct	Nov	Dec
M3	18.1	12.5	19.0	18.4	16.1	18.2	16.0	15.9
M3 Target								**15.7**

Source: Central Bank of Kenya

CHART 7: MONEY SUPPLY (M3) : annual % change 1995-96



Source: Central Bank of Kenya

1 The Money Supply M3 target is for December 1996.

The monetary expansion in 1996 was supported by increases in both net foreign assets (NFA) and net domestic assets (NDA) of the banking system. The NFA of the banking system increased by shs 21.7bn or 7.4% to shs 28.6bn in December 1996 and accounted for 59.0% of the expansion in the money supply. The NFA build-up was largely at the Central Bank as the NFA with commercial banks fell by shs 2.1bn while that of NBFIs rose by shs 0.1 bn (Table 6 and Chart 8).

TABLE 6: MONEY SUPPLY AND ITS SOURCES (ANNUAL BASIS) IN KSHS. BN

		1995	1996		Change		Target	Deviation
		Dec	Sept	Dec*	Absolute	%	Dec 1996	
1	**Money supply M3 [1] (2+3)**	**213.6**	**255.6**	**268.5**	**36.8**	**15.9**	**268.1**	**0.4**
	Money supply M2	193.0	221.0	238.9	45.9	23.8		
2	**Net foreign assets:**	**6.9**	**23.5**	**28.6**	**21.7**	**314.4**	**31.4**	**-2.7**
	Gross foreign exchange	49.3	65.1	70.7	21.5	43.5		
	Liabilities in foreign exchange	42.4	41.7	42.1	-0.3	-0.7		
3	**Net domestic assets**	**224.7**	**232.1**	**239.8**	**15.1**	**6.7**	**236.7**	**3.1**
	Domestic credit	249.5	270.2	272.5	23.0	9.2	271.7	0.8
	Government (net) :	**78.5**	**78.9**	**74.8**	**-3.7**	**-4.7**	**70.3**	**4.5**
	Central Bank	50.1	37.2	32.6	-17.5	-35.0	30.5	2.1
	Government Overdraft	45.6	30.2	30.0	-15.6	-34.3	27.6	2.4
	Cleared items awaiting posting to PMG	4	3.5	0.4	-3.6	-89.8	0.0	0.4
	Government securities	0.5	3.5	2.2	1.7	319.3	2.9	-0.7
	Commercial banks & NBFIs	28.4	41.8	42.2	13.8	48.8	39.8	2.4
	Commercial banks	21.7	37.3	39.3	17.7	81.6		
	NBFIs	6.7	4.5	2.9	-3.8	-57.1		
	Private sector and other public sector :	**171**	**191.3**	**197.7**	**26.7**	**15.6**	**201.4**	**-3.7**
	Commercial Banks	129.8	151.7	161.1	31.4	24.2		
	NBFIs	41.3	39.6	36.6	-4.7	-11.3		
	Other items net:	**-24.8**	**-38.1**	**-32.7**	**-7.9**	**31.9**	**-35.0**	**2.3**
4	**Reserve Money:**	**71.2**	**73.7**	**77.0**	**5.8**	**8.1**	**76.0**	**1.0**
	Cash in till	5.2	4.7	6.0	0.8	15.5	4.7	1.4
	Currency outside the banking system	28.8	27.8	30.3	1.5	5.3	29.5	0.8
	Deposits with CBK	37.2	41.3	40.7	3.4	9.3	41.9	-1.2
	Memorandum item							
	Outstanding Treasury bills	**59.4**	**82.6**	**82.6**	**23.2**	**39.1**	**82.3**	**0.3**

* Provisional

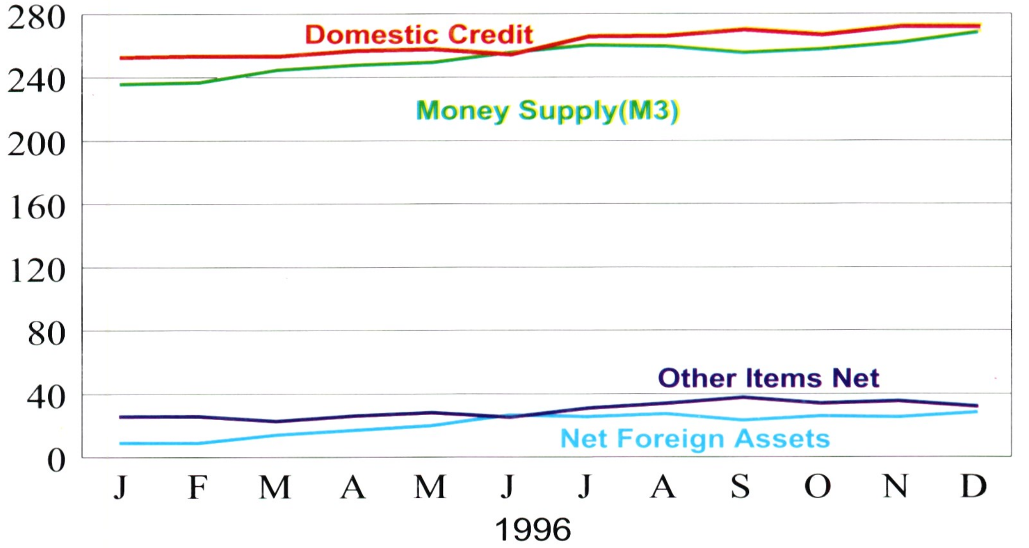
Source: Central Bank of Kenya

1 *Broad money, M3, is the money supplied by Central Bank, commercial Banks and NBFIs. It comprises currency outside Banking institutions, other non-bank institutions' deposits with Central Bank, demand, savings and time deposits as well as certificate of deposits held by the private and other public sectors with the banking institutions. It excludes Central Government deposits with banking institutions.*

The NDA of the banking system rose by shs 15.1 bn or 6.4% and accounted for 41.0% of the increase in money supply in 1996. The shs 15.1 bn expansion in the NDA comprised:

- an increase of shs 26.7bn, or 15.6% in credit to private and other public sectors, all of which originated from an increase of shs 31.4bn in commercial banks lending but was partly offset by a decline of shs 4.7bn in the lending by Nonbank Financial

CHART 8 : MONEY SUPPLY AND ITS SOURCES (SHS BN)



Source : Central Bank of Kenya

Institutions (NBFIs).

- a decline of shs 3.7bn or 4.7% in credit to Government and
- a decline of shs 7.9bn in other assets net of other liabilities

The banking system lending to Government declined by shs 3.7bn or 4.7% in 1996 compared with 3.1% increase in 1995. The decline comprised a fall of shs 17.5 bn and shs 3.8bn in credit from the Central Bank and NBFIs, respectively, which wholly offset shs 17.7 bn increase in credit from commercial banks. The fall in Government borrowing from the Central Bank comprised a decline of shs 19.2 bn in the overdraft and an increase of shs 1.7 bn in the holdings of rediscounted securities and Repurchase Agreement (**Repo**) Treasury bills. However, the decline in Government indebtedness to the Central Bank was below expectation as the outstanding credit at shs 32.6 bn in December 1996 was shs 2.1 bn above the December target of shs 30.5 bn. Government borrowing also exceeded the December 1996 credit ceiling of shs 39.8 bn from commercial banks and NBFIs by shs 2.4 bn. Developments in money supply and credit on a financial year basis are shown in Table 7.

TABLE 7: MONEY SUPPLY AND ITS SOURCES (FISCAL YEAR 96/97) IN KSHS. BN

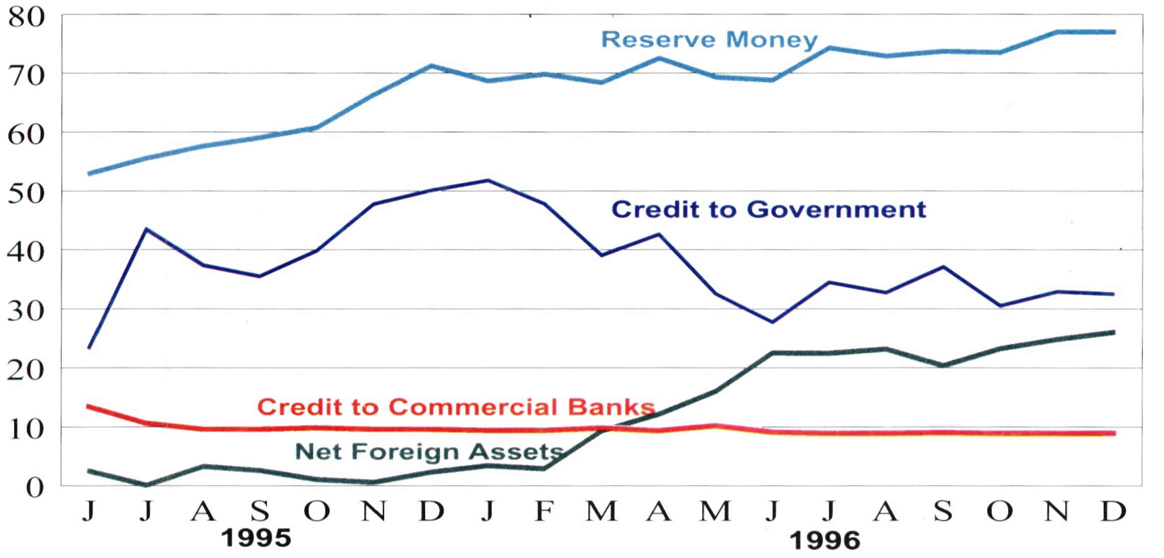
		1996 Jun	1996 Sep	Dec*	Change Absolute	%	Target Dec 1996	Deviation
1	**Money supply, M3 (2+3)**	**255.6**	**255.6**	**268.5**	**12.9**	**5.0**	**268.1**	**0.4**
	Money supply, M2	220.1	221.0	238.9	18.8	8.5		
2	**Net foreign assets:**	**26.6**	**23.5**	**28.6**	**2.0**	**7.5**	**31.4**	**-2.7**
	Gross foreign exchange	70.7	65.1	70.7	0.1	0.1		
	Liabilities in foreign exchange	44.0	41.7	42.1	-1.9	4.4		
3	**Net domestic assets**	**229.0**	**232.1**	**239.8**	**10.8**	**4.7**	**236.7**	**3.1**
	Domestic credit	254.4	270.2	272.5	18.2	7.1	271.7	0.8
	Government (net) :	**69.6**	**78.9**	**74.8**	**5.2**	**7.4**	**70.3**	**4.5**
	Central Bank	27.8	37.2	32.6	4.8	17.2	30.5	2.1
	Government Overdraft	24.2	30.2	30.0	5.8	23.9	27.6	2.4
	Cleared items awaiting posting to PMG	0.5	3.5	0.4	0.0	-10.6	0.0	0.4
	Government securities	3.2	3.5	2.2	-1.0	-30.3	2.9	-0.7
	Commercial banks & NBFIs	41.8	41.8	42.2	0.4	1.0	39.8	2.4
	Commercial banks	37.9	37.3	39.3	1.4	3.6		
	NBFIs	3.9	4.5	2.9	-1.0	-25.3		
	Private sector and other public sector :	**184.7**	**191.3**	**197.7**	**13.0**	**7.0**	**201.4**	**-3.7**
	Commercial Banks	144.9	151.7	161.1	16.3	11.2		
	NBFIs	39.9	39.6	36.6	-3.3	-8.2		
	Other items net:	**-25.4**	**-38.1**	**-32.7**	**-7.3**	**28.9**	**-35.0**	**2.3**
4	**Reserve money:**	**68.8**	**73.7**	**77.0**	**8.2**	**11.9**	**76.0**	**1.0**
	Cash in till	3.5	4.7	6.0	2.5	70.7	4.7	1.4
	Currency outside the banking system	28.7	27.8	30.3	1.6	5.5	29.5	0.8
	Deposits with CBK	36.5	41.3	40.7	4.1	11.2	41.9	-1.2
	Memorandum items							
	Outstanding Treasury bills	**81.1**	**82.6**	**82.6**	**1.4**	**1.8**	**82.3**	**0.3**

Source: Central Bank of Kenya
* Provisional

Reserve Money

Reserve money, comprising notes and coins issued by the Central Bank and deposits of commercial banks and NBFIs with the Central Bank, rose by shs 5.8 bn or 8.1% to shs 77.0 bn in 1996. Deposits of commercial banks and NBFIs at the Central Bank rose by shs 3.4 bn or 9.3% and comprised 58.6% of the increase in reserve money (Chart 9).

CHART 9: RESERVE MONEY AND ITS SOURCES (SHS BN)



Source: Central Bank of Kenya

The banks and NBFIs are required to maintain a minimum of 18% of their deposit liabilities at the Central Bank for liquidity control purposes. Currency with the non banking public rose by shs 1.5 bn while cash in vault of banks and NBFIs increased by shs 0.8 bn. The growth in reserve money was supported by an increase in net foreign assets (NFA) as net domestic assets (NDA) fell. The NFA of the Central Bank rose by shs 23.7bn to shs 26.0 bn in the same period while the NDA fell by shs 17.9 bn or 26.0% to shs 51.0bn. In the NDA, credit to Government and commercial banks declined by shs 17.5bn or 35.0% and by shs 0.7 bn or 7.3% respectively during 1996. Other assets, net of other liabilities however, rose by shs 0.3bn during the year.

The decline in credit to Government was wholly in the overdraft which fell by shs 19.2bn or 38.7% to shs 30.4 bn in 1996. The lower overdraft reflected success in raising revenues and in reducing Government expenditures in 1996. Meanwhile, Central Bank holding of Government securities rose by shs 1.6bn during 1996. The increase was wholly in Treasury bills acquired under Repo.

Reserve money was maintained at shs 77.0bn in November and December 1996. While the NFA rose by shs 1.1bn, the NDA fell by a similar magnitude in December 1996. The reduction in the NDA in the month was largely on account of shs 0.4bn increase in credit to Government as credit to commercial banks, and other assets, net of other liabilities, declined by shs 0.01bn and shs 0.6bn respectively.

Credit to the Private Sector

Combined credit to the private and other public sectors rose by shs 26.7bn in 1996 and was within expectation as outstanding credit, at shs 197.7bn in December 1996 was shs 3.7 bn within the December expectation of shs 201.4 bn (Table 8 and Charts 10 and 11).

TABLE 8: CREDIT TO THE PRIVATE AND OTHER PUBLIC SECTOR (SHS BN)**

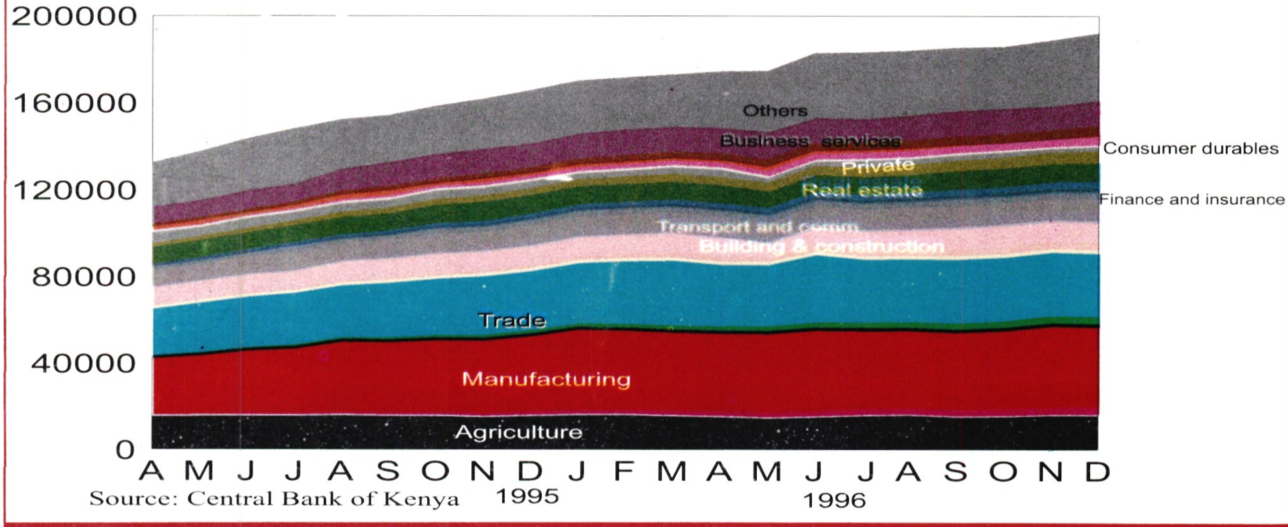
	1995	1996	CHANGE	
	Dec	Dec*	Absolute	%
1 Credit to other public sector	**5.4**	**5.7**	**0.3**	**6.1**
Local government	0.3	0.4	0.0	10.3
Parastatals	5.0	5.3	0.3	5.9
2 Credit to private sector	**165.7**	**192.0**	**26.4**	**15.9**
Agriculture	15.2	15.5	0.2	1.6
Manufacturing	37.9	42.0	4.2	11.0
Trade	29.8	33.8	4	13.4
Exports	0.7	0.8	0.1	20.8
Imports	1.6	1.7	0.1	8.0
Domestic	27.6	31.4	3.8	13.6
Building and construction	11.4	14.2	2.8	24.9
Transport and communication	9.9	10.8	1.0	9.6
Financial institution	2.1	3.0	0.9	43.4
Real estate	11.8	13.8	1.9	16.5
Mining and quarrying	1.7	1.7	0.0	0.2
Private households	5.7	6.6	0.8	14.6
Consumer durables	3.6	5.0	1.4	39.8
Business services	12.5	15.2	2.7	21.4
Other activities	24.0	30.3	6.3	26.4
3 TOTAL (1+2)	**171.0**	**197.7**	**26.7**	**15.6**

* Provisional

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

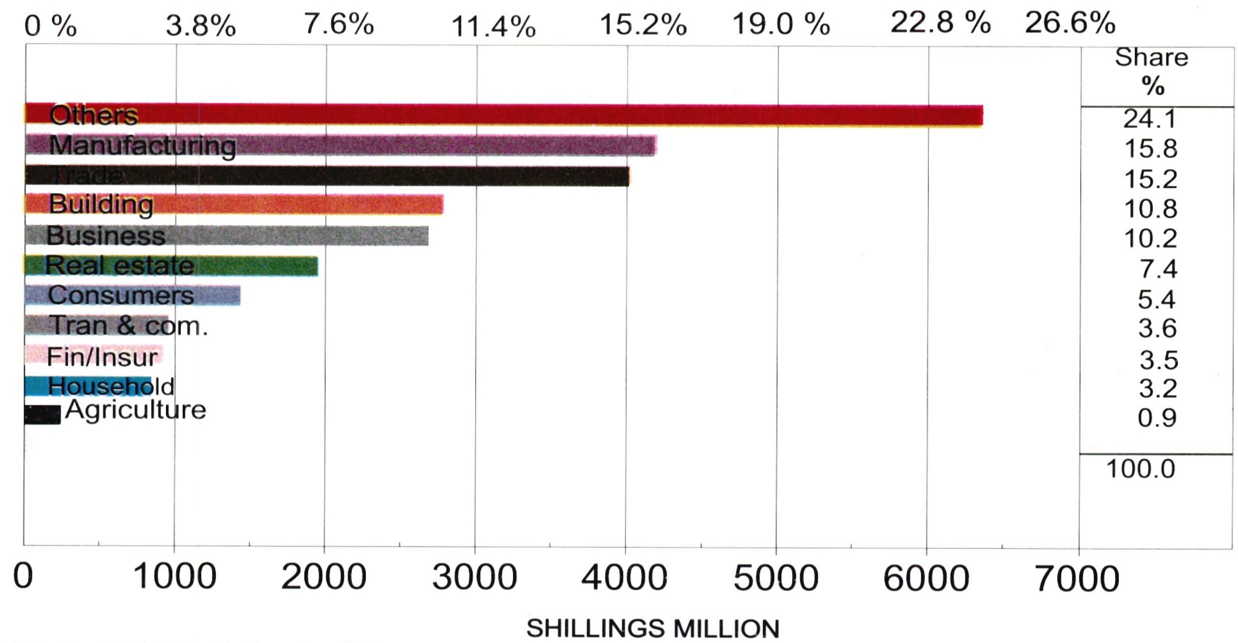
Source: Central Bank of Kenya

CHART 10: DISTRIBUTION OF COMMERCIAL AND NBFI's CREDIT TO PRIVATE SECTOR (SHS M)



Source: Central Bank of Kenya

CHART 11: SHARE OF THE INCREASES IN CREDIT TO PRIVATE SECTOR IN THE 12 MONTHS TO DECEMBER '96



Source: Central Bank of Kenya

The increase of shs 27.0 bn in credit to the private and other public sectors in 1996 comprised shs 31.4bn from commercial banks and a decline of shs 4.7bn from NBFIs. Lending for private sector activities alone amounted to shs 26.4 bn or 98.9% of the new credit. The balance of shs 0.3 bn went to finance other public sector activities. Among the principal private sector activities, manufacturing, domestic trade, building and construction and business services accounted for shs 13.4 bn or 51.1% of the new credit to the sector during the year.

LIQUIDITY OF BANKS AND NON-BANKS

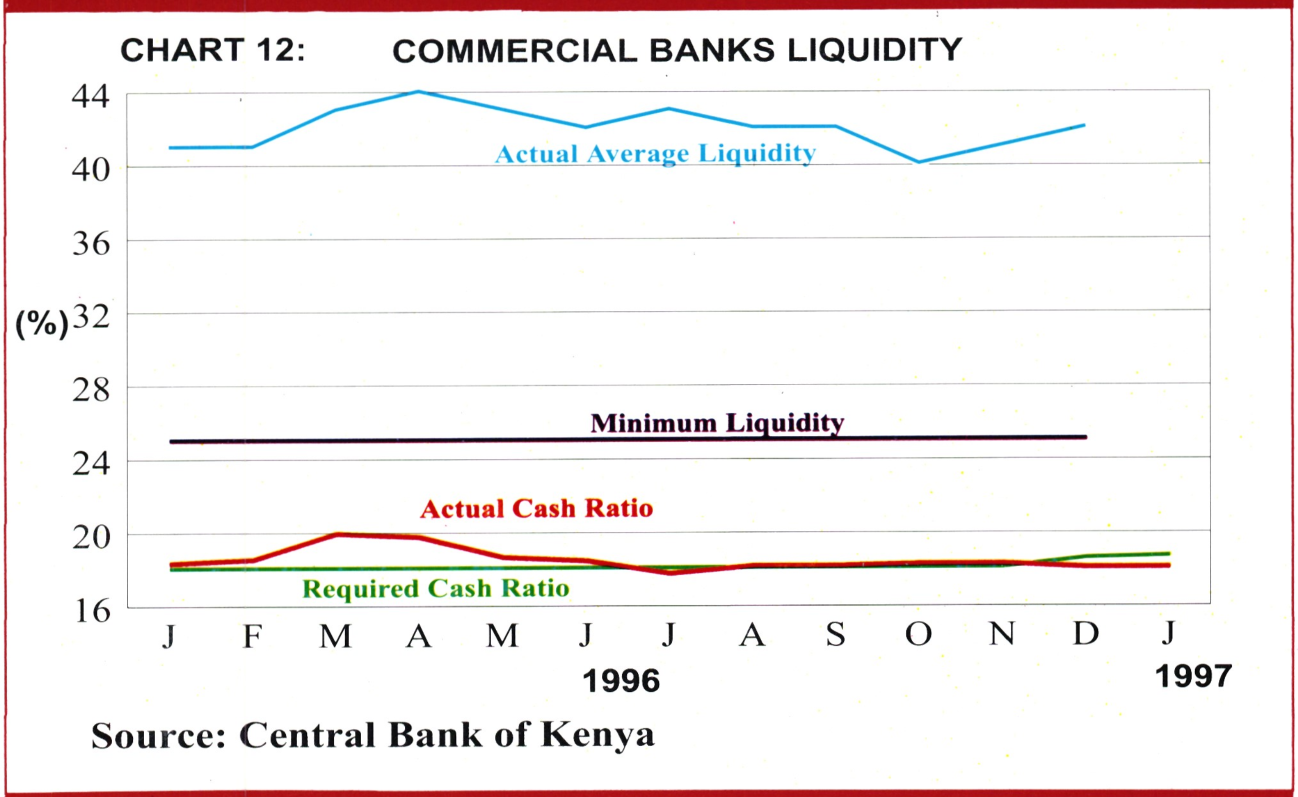
The banking industry maintained high liquidity throughout 1996 with the average liquidity ratio for commercial banks and NBFIs ranging between 40% to 44% and 34% to 39%, respectively. The ratio of liquid assets to deposits in December 1996 averaged 42% for commercial banks and 37% for NBFIs compared with the 25% minimum requirement (Table 9 and Chart 12)

TABLE 9: LIQUIDITY AND CASH RATIOS (%)*

	1995	1996				1997
	Dec	Jun	Sep	Nov	Dec	Jan
Commercial Banks						
Avg. Liquidity	41	42	42	41	42	
Minimum Liquidity	25	25	25	25	25	25
Cash Ratio - All Banks	19.7	18.4	18.3	18.4	18.5	18.4**
Minimum Cash Ratio***	18	18	18	18	18	18
NBFIs						
Average Liquidity	38	38	35	34	37	
Minimum Liquidity	25	25	25	25	25	25
Cash Ratio	18.2	19.9	18.8	18.8	18.9	19.0**
Minimum Cash Ratio***	18	18	18	18	18	18
Mortgage Companies						
Average Liquidity	29.9	29	31	31	32	
Minimum Liquidity	20	20	20	20	20	20
Building Societies						
Average Liquidity	59.9	57.6	58	54	53	
Minimum Liquidity	10	10	10	10	10	10

* Monthly average liquidity and end month cash ratios
** Cash ratio as at 14th January, 1997
*** Eligible deposit-taking institutions in addition, must observe an average 18% cash ratio after every 14 days, subject to a daily minimum of 15% with effect from 1st May, 1996.

Source: Central Bank of Kenya



The high liquidity ratios reflected in part:

- the stance of monetary policy aimed at preventing excesive monetary expansion.This objective makes it neccessary to continue offering more sales of Treasury bills at relatively high rates. The high return on the Treasury bill has in turn led commercial banks and NBFIs to invest a monthly average of 42% and 24% of their total liquid assets in Treasury bills, respectively.

- a gradual build-up of NBFIs net balances with local banks from a low 18% of total liquid assets in February to a peak 38% in December.

The liquidity ratios for mortgage finance companies and building societies were also high at 32% and 53% of their deposit liabilities, respectively in December 1996 compared with the minimum requirements of 20% and 10%.

Meanwhile, eligible deposit-taking institutions on average met the 18% minimum cash ratio requirement in January 1997. Commercial banks held 18.4% of their deposit liabilities as cash balances with the Central Bank, while NBFIs balances amounted to 19.0% of their deposit liabilities. Commercial banks and NBFIs relied entirely on own resources to meet cash ratio requirements in January 1997.

TREASURY BILLS AND STOCK MARKETS

Treasury Bills:

The Treasury bills market witnessed major changes during the month of January 1997 following the introduction of the Central Depository System (CDS) for Government securities. The system is among other objectives, expected to facilitate the development of a secondary market for Treasury bills. The role of the Central Bank is now confined to sale of Treasury bills in the primary market with minimum purchases of one million shillings. Investors not qualifying for the minimum amount in the primary market are expected to purchase securities in the secondary market where minimum investment remains fifty thousand shillings.

The stock of Treasury bills during the month of January rose to shs 85.2bn from shs 81.1bn and shs 83.0bn in June and December 1996 respectively (Table 10 and Chart 13). The market was in part driven by the need for the Government to raise finances for purposes of financing the deficit. This was further reinforced by the need to sterilize excess money supply with the objective of containing inflationary pressures following the Government borrowing from the Central Bank and foreign exchange purchases by the Bank from the interbank market.

The banking institutions continued to dominate the market as they held bills worth shs 53.8bn or 63.2% of the stock while insurance companies and non institutional investors held bills worth shs 11.1bn and shs 15.1bn respectively. 91-days maturities constituted 98.6% of the outstanding stock.

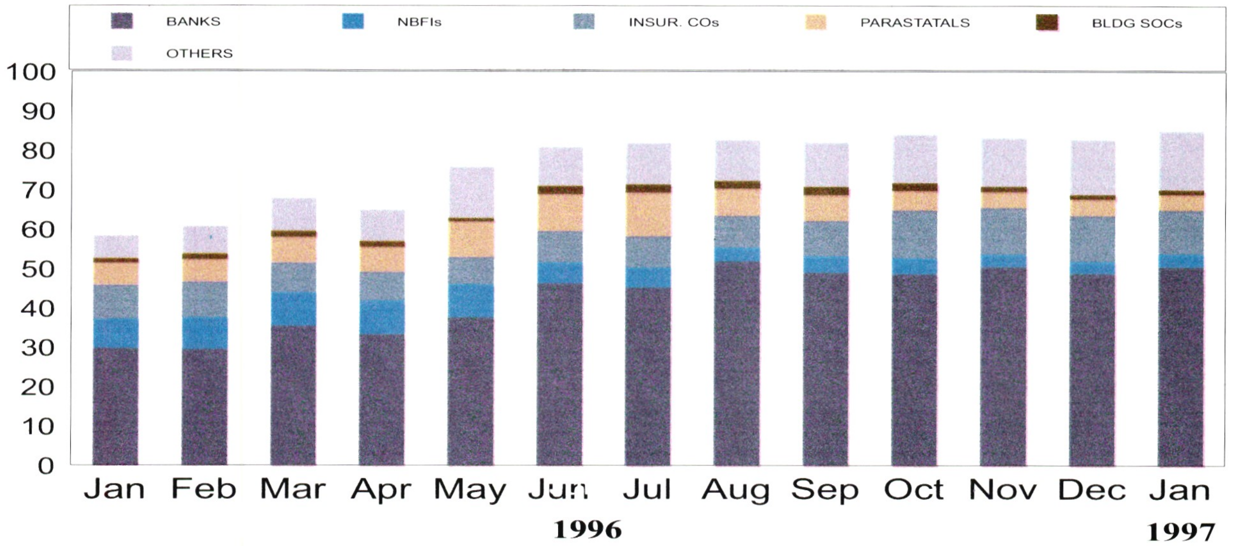
TABLE 10: OUTSTANDING TREASURY BILLS BY HOLDERS (SHS BN)

	1996								1997	
Holders	**Mar**	**%**	**Jun**	**%**	**Sep**	**%**	**Dec**	**%**	**Jan***	**%**
Banking Institutions	43.9	64.5	51.5	64.3	53.2	64.6	51.9	62.5	53.8	63.2
Banks	35.4	52.0	46.3	57.8	49.1	59.6	48.8	58.8	50.5	59.3
Financial Institutions	8.5	12.5	5.2	6.5	4.1	5.0	3.1	3.7	3.3	3.9
Insurance Companies	7.5	11.0	8.0	10.1	8.9	10.8	11.6	13.9	11.1	13.0
Parastatals	6.5	9.6	9.4	11.8	6.6	8.1	4.2	5.1	4.0	4.7
of which NSSF	1.4	2.1	4.8	6.0	0.5	0.6	1.9	2.3	1.8	2.1
Building Societies	1.6	2.3	2.1	2.6	2.1	2.5	1.2	1.5	1.2	1.4
Others	8.6	12.6	10.1	12.7	11.5	14.0	14.1	17.0	15.1	17.7
Total	**68.1**	**100.0**	**81.1**	**100.0**	**82.3**	**100.0**	**83.0**	**100.0**	**85.2**	**100.0**

* Provisional as at January 24, 1996.

Source: Central Bank of Kenya

CHART 13: OUTSTANDING TREASURY BILLS BY HOLDERS (SHS BN)



Source: Central Bank of Kenya

Stock Market

Activity at the Nairobi Stock Exchange (NSE) improved in December 1996 compared with November 1996. During December 1996, the NSE 20 share index gained 72.1 index points to close at 3114.1, while the market capitalisation rose by shs 1.6 bn to shs 98.9 bn. Meanwhile, the number of shares traded increased to 10.3 m in December from 9.8m in November 1996. In value terms, the shares traded rose by shs 81m to shs 435m. As a result, the turnover, measured as the value of shares traded to market capitalisation rose to 0.44% from 0.36% in November 1996. With the decline in the number of transactions to 4,500 in December from 5,300 in November 1996, the average value per transaction rose to shs 96,621 from shs 65,782.

The performance at the NSE in 1996 was mixed. The NSE 20 share index lost 354.1 index points while market capitalisation fell by shs 13.9 bn. However, 113 million shares valued at shs 3.9 bn were traded during 1996, compared with 62 million shares worth shs 3.3bn in1995. The number of deals rose to 63,304 from 54,286 in 1995. The average value per transaction rose by shs 1,000 to shs 62,000 in 1996 while the ratio of value of shares traded to market capitalisation closed at 4.0% compared with 2.9% in 1995.

Activity at the foreign investors board (FIB) was high both in December 1996 and during calender year 1996. The FIB received substantial foreign investments in December 1996 to record a turnover of US$ 4.2m compared with US$ 2.0 bn in November 1996.

BUDGETARY DEVELOPMENTS

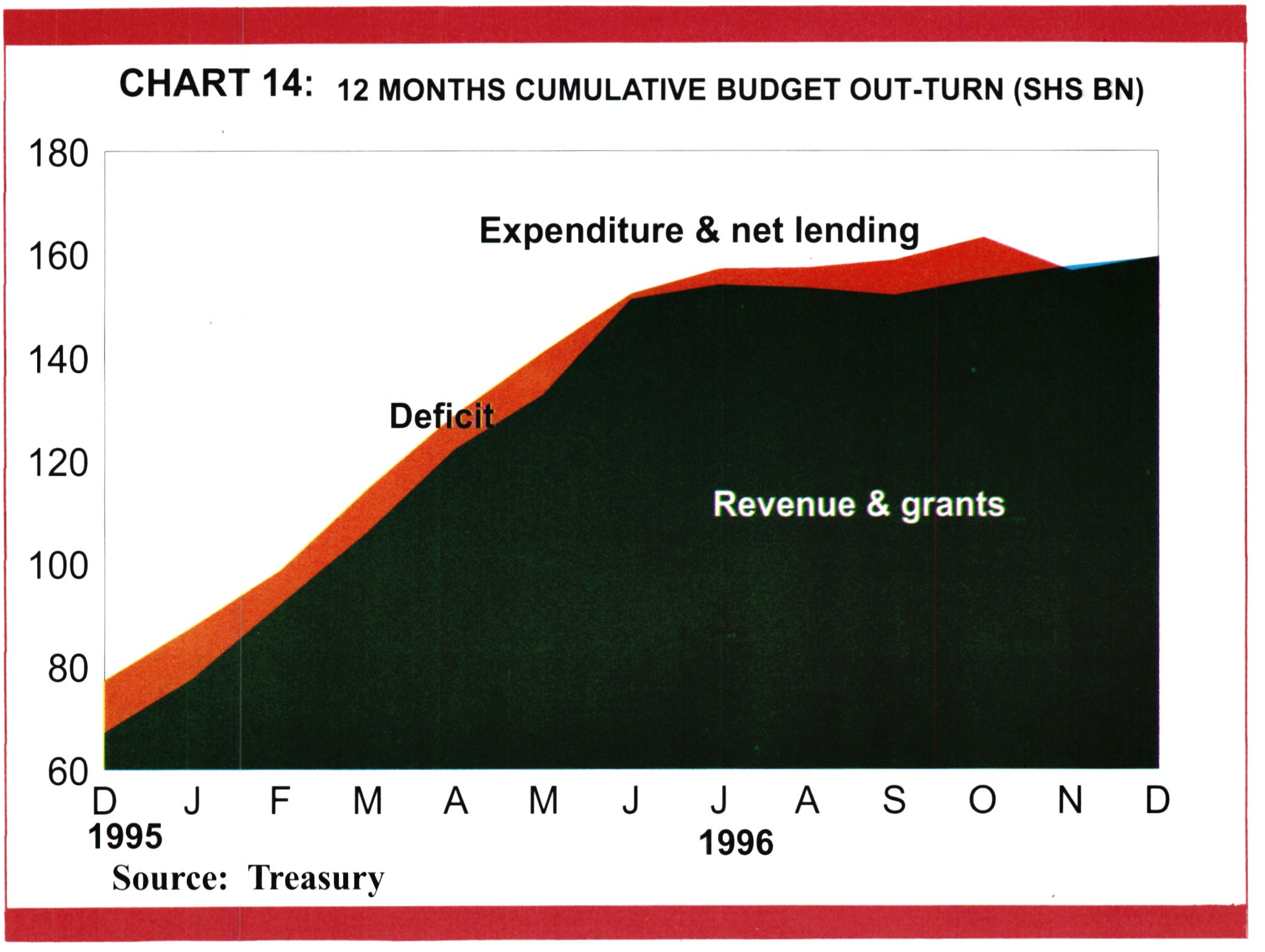
In the first half of 1996/97 fiscal year, the Government budget deficit on a commitment basis was shs 4.4 bn or 0.9% GDP. This was shs 3.6bn above the deficit target of shs 0.8bn but an improvement of shs 0.9bn over a comparable period in the 1995/96 fiscal year. On a cash basis, the deficit was shs 4.4bn compared to shs 3.3bn in 1995/96 (Table 11 and Chart 14).

TABLE 11: BUDGET OUT-TURN (SHS BN)

		FY 1995/96		FY 1996/97			FY 1996/97
			Cum. to Dec 1995	Cum. to Dec 1996		Over(+)/ Below(-)	
		Revised	Actual	Actual*	Target		Updated Est.
1.	**Revenue & Grants**	**151.3**	**67.3**	**75.4**	**77.4**	**-2.0**	**164.8**
	Ordinary Revenue	138.6	61.9	67.7	69.4	-1.7	148.6
	Appropriations-in-Aid	6.9	3.4	4.2	4.2	0.0	8.4
	Grants	5.8	2.0	3.5	3.8	-0.3	7.8
2.	**Expenditure & Net Lending**	**152.2**	**72.6**	**79.8**	**78.2**	**1.6**	**164.0**
	Recurrent expenditure	122.5	58.5	63.7	62.3	1.4	126.8
	Recurrent expenditure less interest payment	85.3	42.5	45.9	44.5	1.4	93.0
	Domestic interest	25.9	10.8	13.4	12.5	0.9	23.6
	Foreign interest due	11.3	5.2	4.4	5.3	-0.9	10.2
	Development expenditure and net lending	29.3	14.1	15.7	15.9	-0.2	37.2
	Cleared items awaiting transfer to PMG	0.4	0.0	0.4	0.0	0.4	0.0
3.	**Deficit on commitment basis (1-2)**	**-0.9**	**-5.3**	**-4.4**	**-0.8**	**3.6**	**0.8**
	As % of GDP	-0.2	-1.2	-0.9	-0.2		0.2
4.	Foreign interest arrears paid	0.2	0.2	0.0	0.0	0.0	0.0
5.	Foreign interest due but not paid	0.0	0.6	0.4	0.0	0.4	0.0
6.	Change in pending bills	-0.7	1.6	-0.4	-1.7	-1.3	-3.4
7.	**Deficit on a cash basis{(3-4)+(5+6)}**	**-1.8**	**-3.3**	**-4.4**	**-2.5**	**1.9**	**-2.6**
	% of GDP	-0.4	-0.7	-0.9	-0.5		-0.6
8.	**Float (7+9): Expenditure (+)/Revenue(-)**	**-0.2**	**3.6**	**2.8**	**0.1**		**0.0**
9.	**Financing**	**1.6**	**6.9**	**7.2**	**2.6**	**4.6**	**2.6**
	Domestic (net)	**1.7**	**8.5**	**9.1**	**5.1**	**4.0**	**1.0**
	Central Bank	3.6	25.8	4.8			
	Commercial Banks	7.8	-12.8	4.8			
	Other domestic sources	-9.7	-4.5	-0.5			
	Non-banks	-13.5	-5.9	-1.6			
	Capital Receipts	3.8	1.4	1.1	2.0	-0.9	3.0
	External (net)	**-0.1**	**-1.6**	**-1.9**	**-2.5**	**-0.6**	**1.6**

* **Provisional**

Source: Treasury and Central Bank of Kenya



Revenue and Grants

Ordinary revenue rose to shs 67.7bn from shs 61.9bn in a corresponding period in the previous fiscal year. This was a reflection of the Government's commitment towards increasing revenue collection through better tax administration, higher tax compliance and a broadened tax base. Inspite of this improvement, ordinary revenue was short of target by shs 1.7bn as the various tax incomes were below target.

Grants and appropriation-in-aid totalled shs 7.7bn in the six months period compared with shs 5.4bn in similar period last year and shs 8.0bn target. At shs 3.5bn, grants were shs 0.3bn below target while appropriations-in-aid at shs 4.2bn was on target.

The above developments resulted in total revenue collection of shs 75.4bn in the first half of the current financial year, compared to shs 67.3bn last year and shs 77.4bn target.

Expenditure and Net Lending

Total expenditure and net lending during the six months to December 1996 was shs 79.8bn up from shs 72.6bn in a comparable period the previous year. Recurrent expenditure was shs 63.7bn, an increase of shs 5.2bn over the same period in 1995/96. The increase was mainly due to shs 2.0bn increase in expenditure not covered by issues which rose to shs 2.5bn in 1996/97. Development expenditure at shs 15.7bn remained low, constituting 19.7% of total expenditure and representing an increase of shs 1.6bn over a comparable period in 1995/96. The Government is expected to emphasise prudent budgetary operations during the second half of the fiscal year with a view to containing the ratio of budget deficit to GDP to less than 1.2% by the end of the fiscal year.

Financing

Financing of the Government budget deficit was wholly from domestic sources during the six months to December, 1996. Net domestic borrowing was shs 8.0bn while external transactions recorded a net repayment of shs 1.9bn. Among domestic sources, the Government borrowed shs 9.6bn from both the Central Bank and commercial banks and made a net repayment of shs 1.6bn to the non banking sector. The Government was able to raise a further shs 1.1bn from the on-going privatisation programme, thereby raising total net domestic financing to shs 9.1bn. The funds were used to:

- make net external debt repayment of shs 1.9bn
- pay for goods and services amounting to shs 7.2 bn.

Government Borrowing from the Central Bank

Government revenue collection at the Central Bank during the first half of the 1996/97 fiscal year was shs 86.9bn. This exceeded payments for goods and services which amounted to shs 73.8bn resulting in a net surplus in Government operations at the Bank of shs 13.1bn (Table 12). Government debt servicing obligations however, was shs 17.9bn, an amount in excess of savings generated by Government operations, thereby necessitating borrowing from the Central Bank of shs 4.8 bn. The borrowing was in form of overdraft which increased by shs 7.2bn. The increase was however, partly offset by shs 1.0bn decline in the Banks holdings of Government securities and a shs 1.4bn increase in Government deposits at the Bank from sales of Treasury bills.

TABLE 12: ANALYSIS OF GOVERNMENT BORROWING FROM CBK: JUNE TO DECEMBER 1996 (SHS BN)

	1996		
	Jun	**Dec**	**Movement**
1. Government Credit Net	**27.8**	**32.6**	**4.8**
Paymaster General Overdraft	105.4	112.5	7.2
Rediscounted Securities	3.2	2.2	-1.0
Treasury Bills	2.7	1.7	-1.0
Treasury Bonds	0.5	0.5	0.0
Cleared Items in Transit	0.5	0.4	0.0
Less			
Treasury Bills A/C No.2	81.1	82.5	1.4
2. Utilization			**-4.8**
External Debt Service		**-5.9**	**-5.9**
Loan Receipts/Repayment		-1.9	-1.9
Loan Disbursement		8.2	8.2
Less			
Loan Repayment		10.1	10.1
Interest Payment		-4.0	-4.0
Domestic Debt Service			**-12.0**
Borrowing (net additional)			1.4
Long Term Stocks			0.0
Registered Treasury Bonds			0.0
Bearer Bonds			0.0
Treasury bills			1.4
Interest Payments			-13.4
Long term stocks			-0.2
Registered Treasury Bonds			-0.7
Bearer Bonds			-0.1
Treasury bills			-9.2
Overdraft			-3.2
Revenue Collection Net of Expenditure 1/			**13.1**
Revenue Collection at CBK			86.9
Less expenditure on goods and services 1/			73.8

1/ Excludes expenditure on interest payments

Source: Central Bank of Kenya

BALANCE OF PAYMENTS

The overall balance of payments position in 1996 was a surplus of US$ 409m compared with a deficit of US$ 139m in 1995. The improvement in the balance of payments was due to positive developments in both the current and the capital accounts.

Current Account

In the year to December 1996, the current account of the balance of payments recorded a deficit of US$47m compared with a deficit of US$ 395m in a similar period in 1995 (Table 13 and Chart 15). The current account deficit, which has been decreasing in the recent past is attributed to the narrowing of the trade balance combined with good performance in the services account. The trade deficit narrowed from US$ 1190m in 1995 to US$ 869m in 1996 while the services account surplus increased to US$ 822m in 1996 from US$ 795m in 1995.

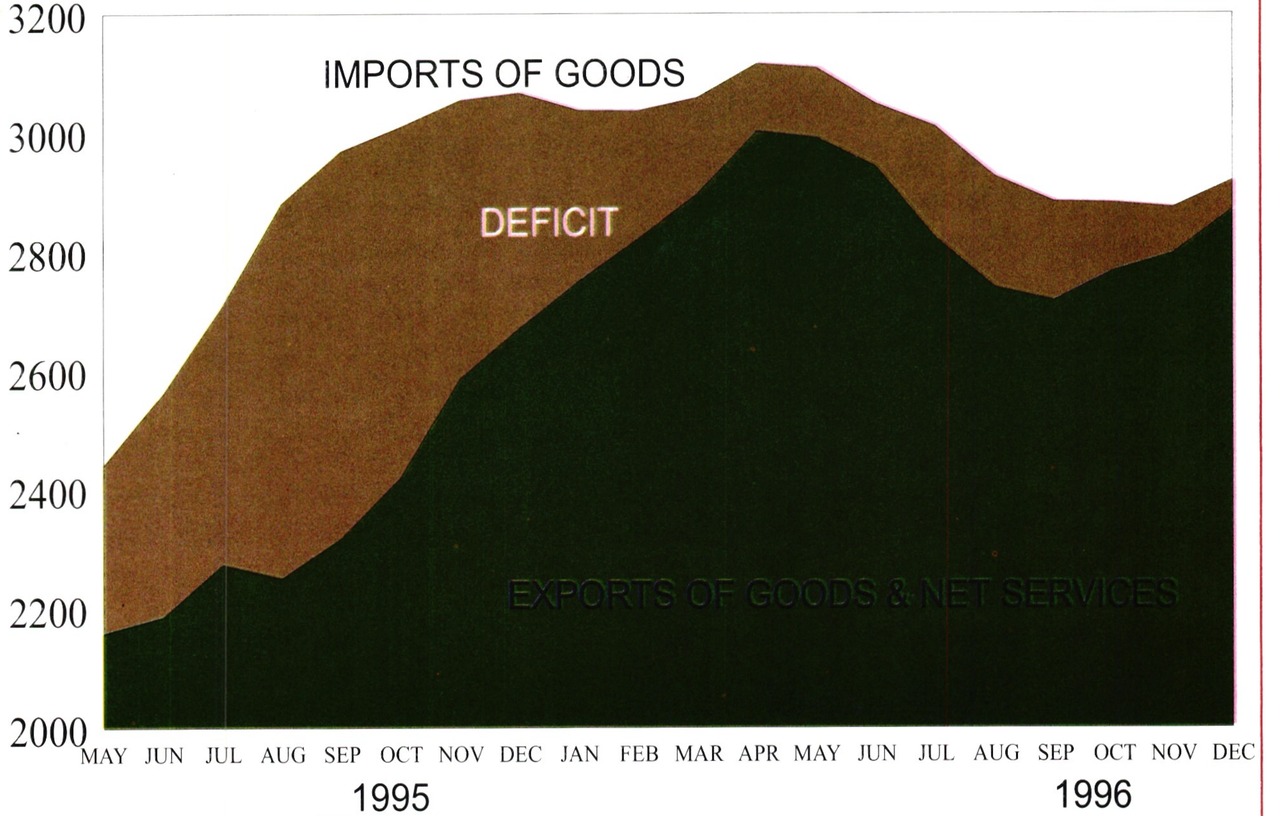
TABLE 13: CURRENT ACCOUNT BALANCE ON A 12-MONTHS BASIS (US$ M)**

	1995	1996				
	Dec	Jun	Sep	Oct	Nov	Dec*
Current Account Balance	-395	-105	-166	-114	-77	-47
Trade Balance	-1190	-1002	-843	-840	-842	-869
Exports	1876	2046	2041	2042	2032	2050
Imports	3066	3048	2884	2882	2874	2919
Services Account (net)	795	897	677	726	765	822
Tourism	486	445	433	432	442	450
Other	309	452	244	294	323	372

* Provisional
** Revised
Source: Central Bank of Kenya

The trade deficit, which has been declining in the recent past, was as a result of an increase in exports by 9.3% from US$ 1876m in 1995 to US$ 2050m in 1996 and a 4.8% decline in imports from US$ 3066m to US$ 2919m. The improvement in the services account was mainly due to a decrease in official interest payments from US$ 257m in 1995 to US$ 191m in 1996. Tourism earnings, however, declined by 7.4% from US$ 486m to US$ 450m.

CHART 15: CURRENT ACCOUNT BALANCE (US $ M)



Source: Central Bank of Kenya

Capital Account

The capital account recorded good performance in 1996 by registering a surplus of US$ 456m compared with US$ 256m surplus in 1995, a development partly attributed to liberalised exchange and trade system which resulted in improved private capital inflows. In particular, the improvement in the capital account reflects the increasing participation of foreign investors in the Nairobi Stock Exchange and in the ongoing privatisation of public enterprises. Moreover the relatively higher interest rates on Treasury bills has been attractive for short-term investment by foreign investors. The improvements in the capital account was due to:

- increase in private and short term inflows from US$ 323m in 1995 to US$ 439m in 1996.
- rise in official inflows from US$ 381m to US$ 410m
- decrease in external debt repayments from US$ 439m to US$ 376m.

Overall Balance

The good performance in the overall balance of payments in 1996 as shown in Table 14 and Chart 16 was due to:

- an improvement in the current account balance from a deficit of US$ 395m in 1995 to a deficit of US$ 47m in 1996.

- an increase in the capital account surplus from US$ 256m to US$ 456m.

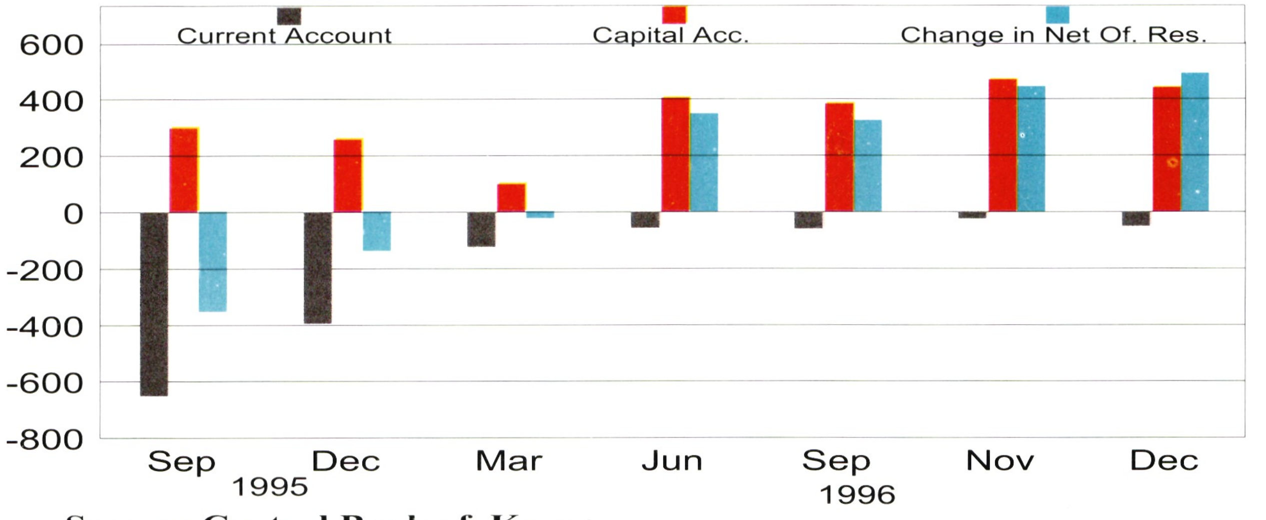
As a percentage of GDP, the overall balance of payments improved from a deficit of 1.8% in 1995 to a surplus of 5.5% in 1996 while the current account deficit narrowed from 5.2% to 0.6%.

TABLE 14: OVERALL BALANCE OF PAYMENTS (US $ MILLIONS)

	1995	1996				
	Dec	Jun	Sep	Oct	Nov	Dec*
Overall balance	-139	346	322	404	442	409
Current account	-395	-105	-166	-114	-77	-47
Capital account (net)	256	451	488	518	519	456

* Provisional
Source: Central Bank of Kenya

CHART 16: OVERALL BALANCE AND ITS SOURCES (US $ M)



Source: Central Bank of Kenya

Foreign Exchange Reserves

As a result of improvements in the overall balance of payments in 1996, the country's total foreign exchange reserves improved from US$ 897m at the end of 1995 to US$ 1304 at the end of 1996. This comprised official reserves which increased from US$ 458m in 1995 to US$ 860m in 1996 and commercial bank reserves which moved from US$ 439m in 1995 to US$ 444m in 1996 (Table 15 and Chart 17).

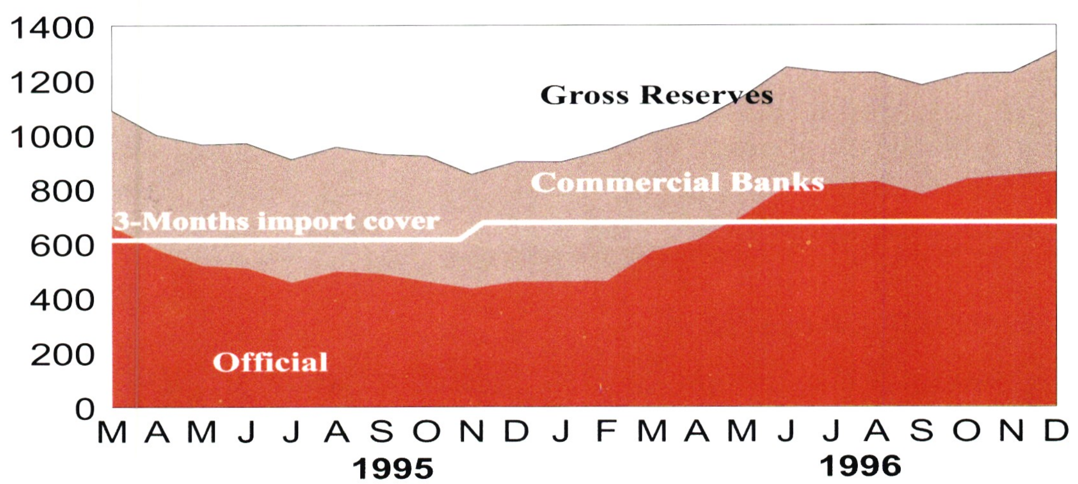
TABLE 15: FOREIGN RESERVES (US $ MILLIONS)

	1995	1996				
	Dec	Jun	Sep	Oct	Nov	Dec*
Gross Reserves	897	1246	1179	1223	1225	1304
Official	458	806	777	832	847	860
Banks	439	440	402	391	378	444
Month of Import Cover						
Gross Reserves	3.5	4.9	4.9	5.1	5.1	5.4
Official	1.8	3.2	3.2	3.5	3.5	3.5
Banks	1.7	1.7	1.7	1.6	1.6	1.9

* Provisional

Source: Central Bank of Kenya

CHART 17: FOREIGN EXCHANGE RESERVES (US $ M)



Source: Central Bank of Kenya

CENTRAL BANK OF KENYA

BALANCE SHEET*

(AMOUNT IN SHS MILLION)

As At End	**December 1995**	**December 1996**	**Movement**
ASSETS			
Gold and Foreign Exchange	24669	46269	21600
Advances and Discounts to Banks	9766	9056	-710
Fixed Assets	1785	2648	863
Other Assets	1101	1349	248
Revaluation Account	24214	24692	478
Government Accounts	50127	32594	-17533
Government of Kenya Overdraft	45642	29993	-15649
Uncleared Effects	3961	404	-3557
Investment in Government Securities	524	2197	1673
TOTAL ASSETS	**111662**	**116608**	**4946**
LIABILITIES			
Currency in Circulation	33995	36338	2343
Deposits	65035	66870	1835
Commercial Banks			
- Kenya	28529	36732	8203
- External	27	37	10
Non-Banks Financial Institutions	8677	3922	-4755
IMF	22367	20250	-2117
Other Public Entities and Project A/Cs	5435	5929	494
Other Liabilities and Provisions	7688	7808	120
CAPITAL AND OTHER RESERVES			
Capital Account	500	1500	1000
General Reserve Fund	359	172	-187
Year's Surplus	4085	3920	-165
TOTAL LIABILITIES, CAPITAL AND RESERVES	**111662**	**116608**	**4946**

* **Provisional**

NOTES ON THE BALANCE SHEET

The following changes took place in items of the balance sheet between December 1995 and December 1996.

Assets

Gold and foreign exchange increased by shs 21,600m to shs 46,269m mainly due to improved foreign exchange inflows.

Advances and Discounts to banks decreased by shs 710m to shs 9,056m mainly due to recovery of money owed by banks under liquidation.

Uncleared effects which are cheques which had not been cleared as at the Balance Sheet date decreased by shs 3557m to shs 404m.

Fixed Assets increased by shs 863m mainly due to the on-going construction of CBK Towers, Kenya School of Monetary Studies and the Branch Manager's House, Kisumu.

Government of Kenya Overdraft decreased by shs 15,649m to shs 29,993m mainly due to improved revenue collection by the Kenya Revenue Authority and tighter controls on spending by the Government.

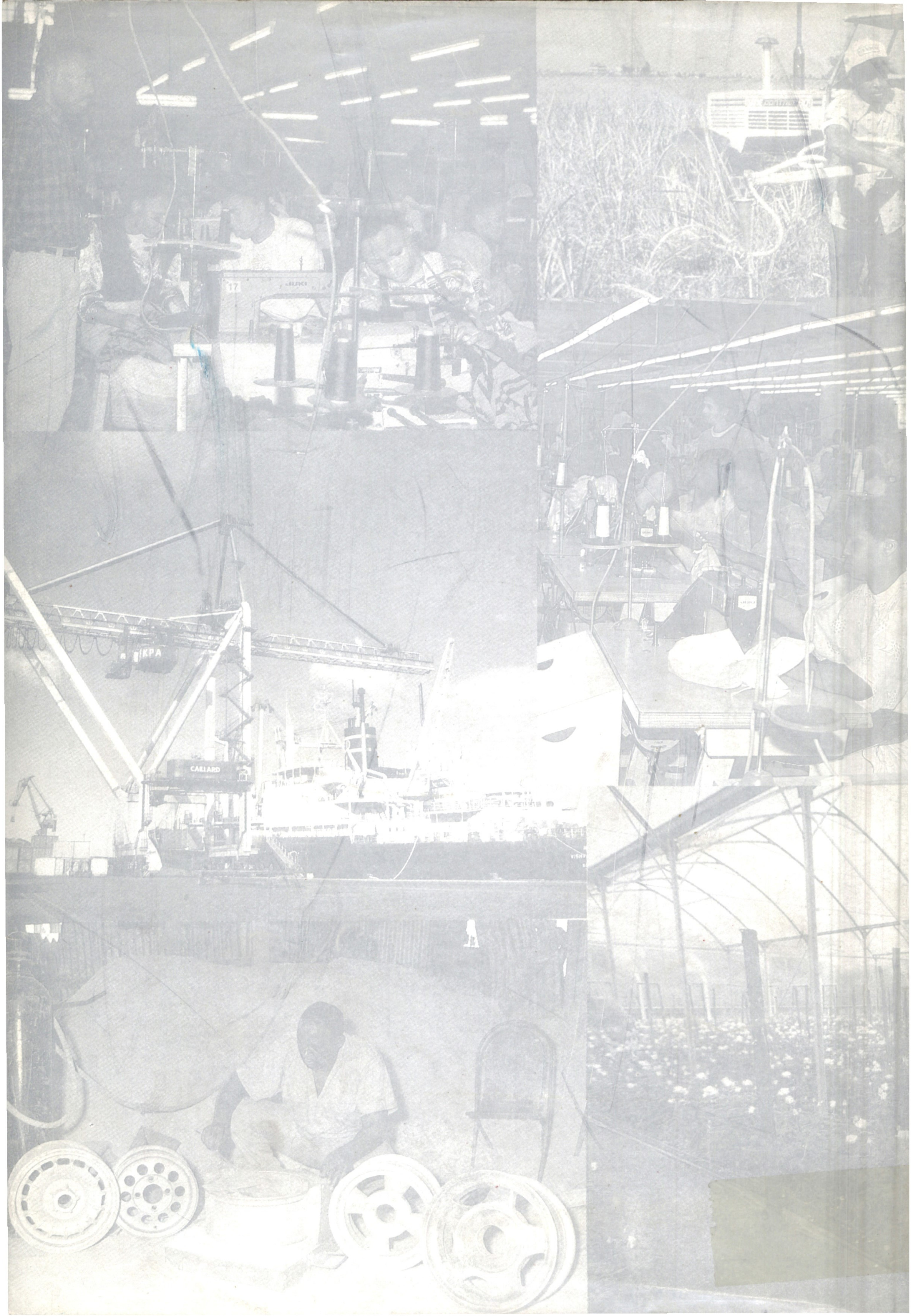
Liabilities

Currency in Circulation increased by shs 2,343m to shs 3,6338m mainly due to increased inflows of foreign exchange.

Deposit Liabilities increased by shs 1,835m to shs 66,870m due to increased deposit base of banks and non-bank financial institutions observing cash ratio requirement.

Other Liabilities and Provisions increased by shs 120m to shs 7,808m.

NOTES


17
KPA
CAILLARD