Central Bank of Kenya

Market Perceptions Survey

January 2025

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1. BACKGROUND TO THE MARKET PERCEPTIONS SURVEYS

The Central Bank of Kenya (CBK) undertakes a Market Perceptions Survey, prior to every Monetary Policy Committee (MPC) meeting to obtain perceptions of banks and non-bank private sector firms on selected economic indicators including inflation, economic growth, demand for credit, growth in credit to private sector and exchange rate. The Survey also allows respondents to indicate their levels of optimism in the country's economic prospects and business environment, and perspectives on the current and expected economic conditions, focussing on economic activity and employment. It also captures suggestions by private sector firms on ways to improve the business environment.

Commercial banks, micro-finance banks, and a sample of non-bank private sector firms are included in the Surveys. The sample of non-bank private firms, selected from major towns across the country namely Nairobi, Mombasa, Kisumu, Eldoret, Nakuru, Nyeri, Meru and Kisii, is representative of sectors that account for about 78 percent of GDP. The sectors covered by the Survey include agriculture, mining and quarrying, manufacturing, trade, hotels and restaurants, information and communications technology (ICT), transport, real estate, health, building and construction, and finance and insurance.

The MPC Secretariat conducts sensitisation engagements with respondents on an annual basis in all the regions to facilitate a better understanding of the survey questions, to enhance the quality of responses, and to increase the response rate.

2. INTRODUCTION

The January 2025 MPC Market Perceptions Survey was conducted in the first three weeks of the month. The Survey aimed at getting perceptions by respondents on selected economic indicators for the previous three months (November 2024, December 2024, and January 2025), expectations for the next three months (February, March, and April 2025), the next one year (February 2025 – January 2026), the next two years (February 2025 – January 2027), and the next five years (February 2025 – January 2030).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 2025. In addition, the Survey interrogated market expectations on inflation, economic growth, lending rates, levels of operations by companies, and demand for credit.

Other areas surveyed included the levels of optimism in the economic prospects over the next 12 months and expectations regarding employment levels. The significance of various factors behind the expectations provided by respondents was also analysed.

This report provides a summary of the findings of the Survey.

3. SURVEY METHODOLOGY

The Survey targeted Chief Executives and other senior officers of 353 private sector firms comprising 37 commercial banks, 14 microfinance banks (MFBs) and 302 non-bank private firms, including 84 hotels, through questionnaires administered online, and via email and hard copies. The overall response rate to the January 2025 Survey was 61 percent of the sampled institutions. The respondents comprised 37 commercial banks, 13 micro-finance banks, and 166 other non-bank private sector firms.

The expectations from commercial and microfinance banks were aggregated and analysed using weighted averages based on the market size of the bank/ microfinance bank relative to total banks/ microfinance banks, respectively, while those from the non-bank private firms were weighted using the respective sector weights based on the latest available sectoral contributions to GDP.

4. HIGHLIGHTS OF THE SURVEY

The Key findings from the January 2025 Market Perceptions Survey included:

1. Respondents expect overall inflation to be low and stable in the next three months, and to be anchored around the 5 percent target in the medium term on account of slowdown in global oil prices and stable shilling.
2. Respondents expect increased economic activity in February, March and April 2025 on account of expected low cost of borrowing as lending rates fall in tandem with lowering of

CBR, pick up in agriculture with the expected long rains, and macroeconomic stability.

3. Respondents expect a pick-up in economic growth in 2025 with better agriculture performance, a resilient services sector and a stable macroeconomic environment.
4. The survey showed mixed hiring expectations by banks and non-bank private firms for 2025
5. Bank respondents expect recovery in private sector credit growth in 2025 largely due to declining lending rates.
6. The survey revealed sustained optimism by respondents about Kenya's economic prospects in the next 12 months.
7. Demand for credit by non- bank players, largely for working capital needs is expected to increase over the next twelve months.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next three months (January, February, and March 2025), the next 12 months (January – December 2025), the next 2 years (January – December 2026), and the next 5 years (January – December 2029). Respondents expected inflation to remain stable below the midpoint of the target in the next three months, supported by moderating global oil prices, easing prices of agricultural produce with the long rains beginning March, and a stable Shilling (Table 1).

Respondents expect moderating global oil prices to contribute to lower inflation pressure by leading to lower local pump prices, transportation costs, electricity costs and production costs. Lower costs of production are expected to lower the overall prices of goods and services.

In addition to food prices being relatively low on account of the 2024 short rains, respondents expected further easing of prices of agricultural produce with the long rains expected in March 2025.

Furthermore, respondents expected positive exchange rate pass through effects of a stable currency to support cheaper imports.

Nevertheless, respondents expected some upward pressure on food inflation in the next three months due to seasonal factors as the stock of crops harvested in 2024 reduces.

Table 1: Inflation expectations (percent)

Survey month	Inflation expectations			Actual inflation
		Banks	Non-banks	
Jan-23	Jan-23	9.03	8.88	8.98
	Feb-23	8.87	8.79	9.23
Mar-23	Mar-23	9.23	8.87	9.19
	Apr-23	9.12	8.91	7.90
May-23	May-23	7.98	7.39	8.03
	Jun-23	7.81	7.40	7.88
Jul-23	Jul-23	8.01	7.83	7.28
	Aug-23	8.07	7.83	6.73
Sep-23	Sep-23	6.45	6.54	6.78
	Oct-23	6.27	6.52	6.92
Nov-23	Nov-23	6.97	7.02	6.80
	Dec-23	7.16	7.12	6.60
Jan-24	Jan-24	6.67	6.83	6.85
	Feb-24	6.63	6.77	6.31
Mar-24	Mar-24	6.10	6.07	5.70
	Apr-24	6.05	5.95	5.00
May-24	May-24	4.97	5.09	5.14
	Jun-24	4.96	5.19	4.64
Jul-24	Jul-24	4.66	4.71	4.31
	Aug-24	4.81	4.67	4.36
Sep-24	Sep-24	4.44	4.65	3.56
	Oct-24	4.38	4.72	2.72
Nov-24	Nov-24	2.79	2.99	2.75
	Dec-24	2.96	3.11	2.99
Jan-25	Jan-25	3.20	3.29	3.28
	Feb-25	3.53	3.43	
	Mar-25	3.79	3.62	

Over the medium term, respondents expected inflation to remain anchored close to the midpoint of the target range on account of expected stability in food prices and lower fuel prices **(Chart 1).**

Respondents expected food stability in the near term to benefit from government strategies aimed at subsidizing agricultural production including fertilizer and inputs subsidies in addition to expected favourable weather.

Additionally, respondents expected moderation of global oil prices with increased production globally, and developments in the country seeking to shift from reliance on fossil fuel to renewable energy to keep fuel inflation around the mid-point of the target range.

Furthermore, respondents expected lower lending interest rates with easing monetary stance by the CBK to keep inflation low and stable around the 5 percent target.

Chart 1: Inflation expectations for the medium term (percent)

However, respondents cited the effects of geopolitical uncertainties on commodity prices as risks to medium term inflation outcome as such uncertainties could result in rising logistic costs and increased food, fuel and other import costs.

Another risk to medium term inflation stability cited by respondents was the effect of climate change and unpredictable weather patterns both locally and globally.

6. ECONOMIC ACTIVITY

The January 2025 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in November 2024, December 2024 and January 2025, and their expectations for February, March and April 2025. Respondents expected improved economic activity in the next three months **(Charts 2 & 3).**

Respondents expected moderate to strong and very strong activity in the next three months largely supported by expected reduced cost of borrowing, favourable weather and a stable macroeconomic environment. These sentiments were echoed by 93 percent non-bank and 97 percent bank respondents.

Respondents expected the reduction of lending rates by banks following Central Bank's easing of monetary policy to stimulate private sector credit and lead to recovery of household and services sector spending, and increased imports and thereby impact economic activity.

Additionally, expected favourable weather during the long rain season is expected to increase activities around food production by households, and manufacturers who supply inputs and fertilizers.

In addition, respondents expected a stable economic environment including low inflation, a stable exchange rate, lower interest rates to support economic activity in the next three months.

However, respondents were concerned about effects of taxation on disposable incomes, and reduced aggregate demand as the government implements austerity measures.

Chart 2: Expected economic activity by banks (percent of respondents)

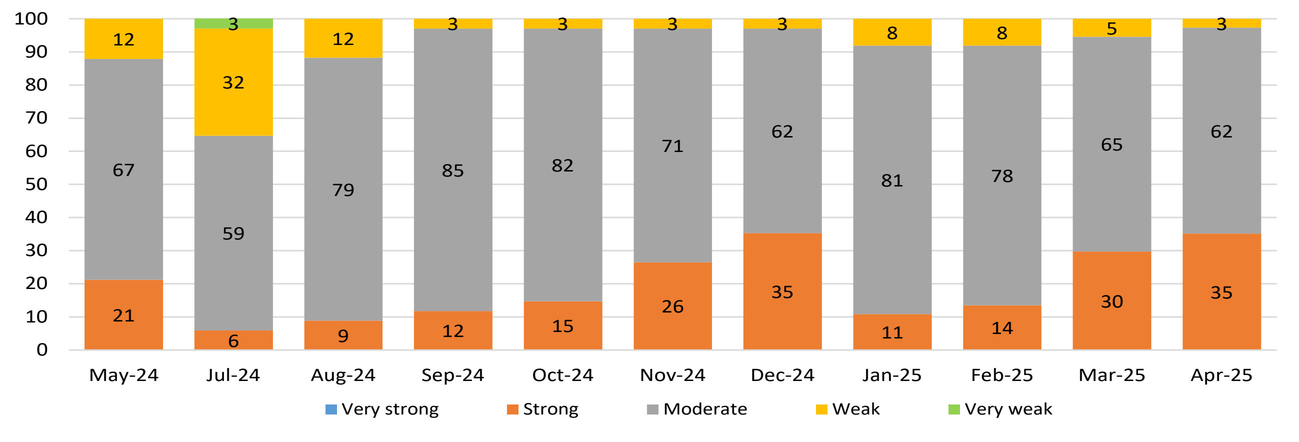
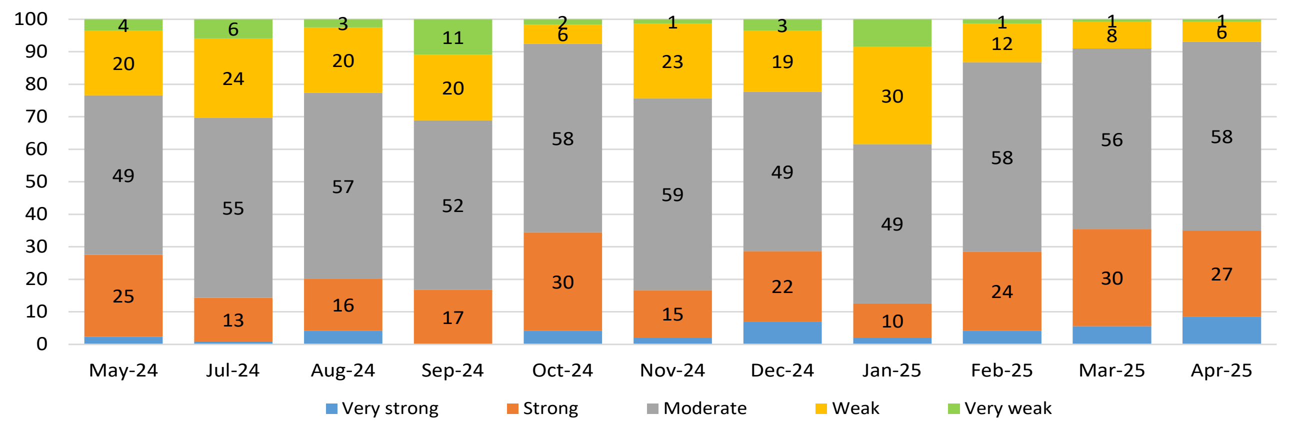


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit at end December 2025

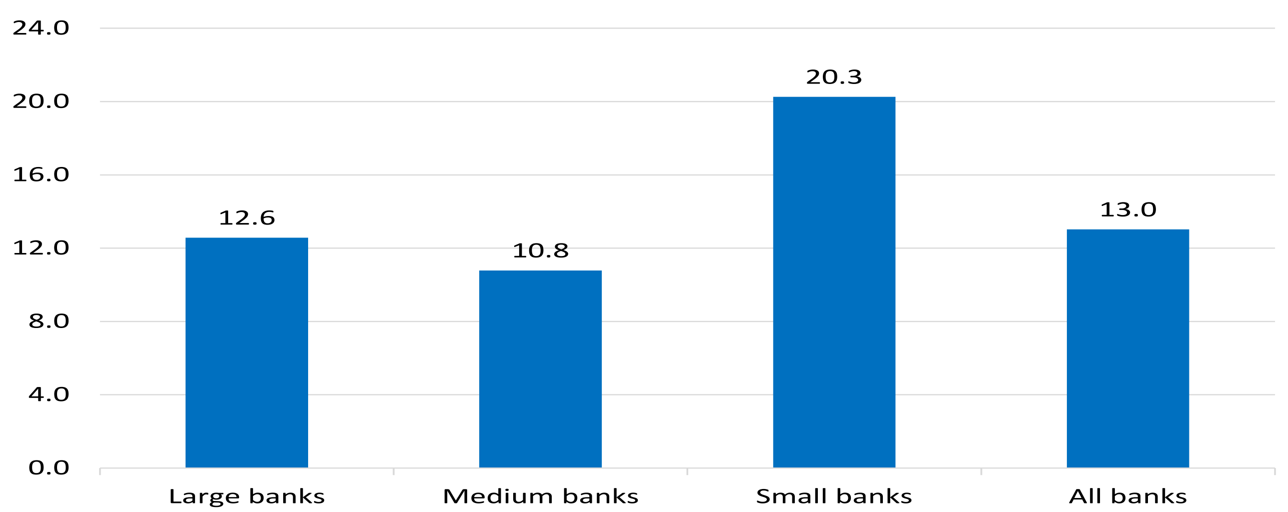
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector by end December 2025 compared with end December 2024. Respondents indicated expectations of higher private sector credit growth in 2025 largely due to expected lowering of lending rates **(Chart 4).**

Bank respondents expected private sector credit growth to be largely supported by the expected decline in lending rates following the easing of monetary policy by the CBK, a stable macroeconomic environment characterized by a low and stable inflation, and improving global economic outlook, expected to provide a conducive environment for investments, hence private sector credit growth.

Respondents also expected increased demand for credit, especially short-term borrowing, borrowing to reduce financial constraints in businesses, and borrowing for funding capital requirements, to contribute to increased private sector credit growth.

Nevertheless, respondents expected credit risk to affect private sector credit growth in 2025.

Chart 4: Expectations on private sector credit growth 2025 (percent)



7.2. Expected demand for credit by banks

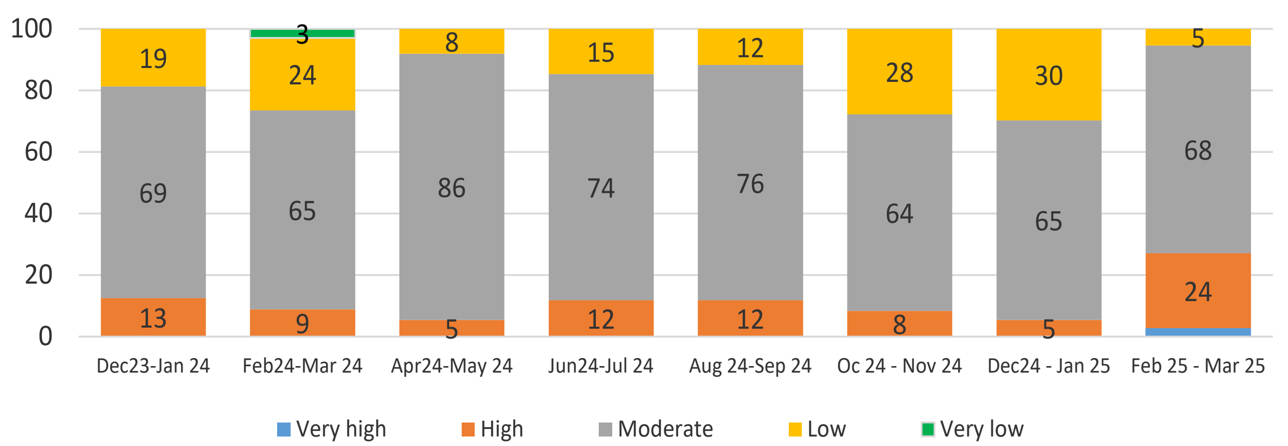
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e., December 2024 and January 2025), and their expectations for February and March 2025. Respondents expected increased demand for credit by clients taking advantage of the declining lending rates, and due to the favourable macroeconomic environment **(Chart 5).**

Bank respondents expected demand for credit to be largely driven by companies taking advantage of reduced interest rates in 2025 to finance working capital and capex financing to implement the business plans and strategies for the year 2025, improve cash flows and liquidity for business in trade, especially for imports.

In addition, respondents expect favourable economic conditions, stable inflation and stable local currency to spur demand for credit in the next few months.

Nevertheless, bank respondents expect demand for credit to be tempered by reduced consumer demand.

Chart 5: Expectations on Demand for credit from banks' perspective (percent of respondents)



8. EXPECTED ECONOMIC ACTIVITY

The Survey requested participants to indicate their expected economic growth rates for the country in 2025. Respondents expected improved economic growth in 2025 compared with 2024, largely supported by agricultural performance, a resilient services sector, and easing macroeconomic conditions **(Chart 6).**

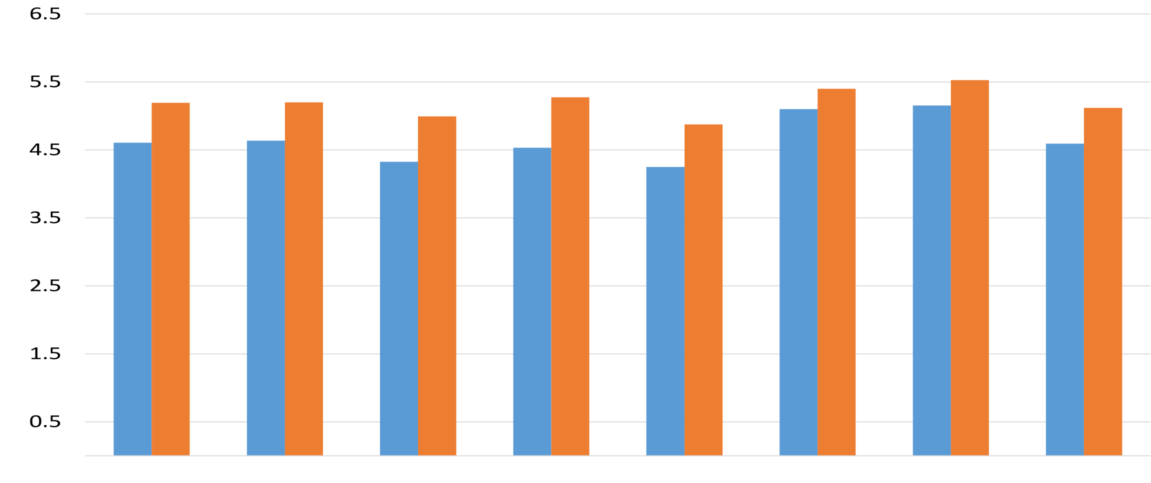
Respondents expected agriculture to continue driving economic performance in 2025 largely due to expectations of favourable weather and benefits from reforms by government in the sector.

In addition, respondents expected better performance in services sector due to increasing demand despite the sluggish growth in manufacturing sector and the easing macroeconomic factors including decline in inflation rate, reduced cost of credit, stable exchange rate and a pickup in consumer demand to support 2025 economic growth.

However, risks to economic growth expectations cited by respondents included taxation which as indicated by respondents, has reduced household disposable income and increased the cost of production.

In addition, respondents expressed concerns about the fiscal consolidation initiatives by the government and high debt to GDP ratio.

Chart 6: Expectations on economic growth for 2025 (percent)



	Banks	Agriculture	Manufactu ring	Trade	Real estate	Transport	Tourism	Non-bank
2024	4.6	4.6	4.3	4.5	4.3	5.1	5.2	4.6
2025	5.2	5.2	5.0	5.3	4.9	5.4	5.5	5.1

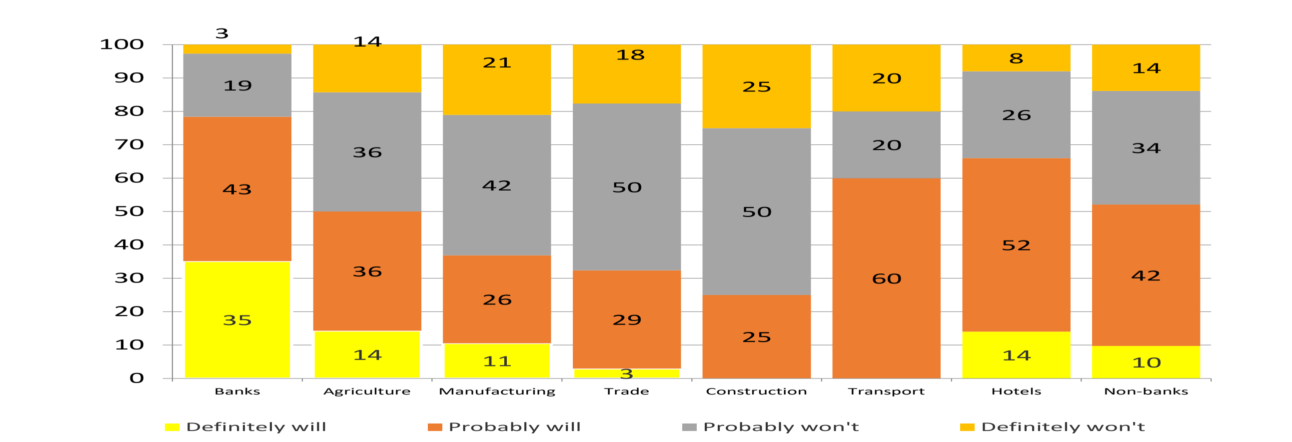
9. EMPLOYMENT EXPECTATIONS

Respondents were asked about whether they expected to increase the number of employees in 2025 relative to 2024. The results showed mixed expectations by banks and non-banks **(Chart 7).**

Banks largely expect to hire more in 2025 supported by continued branch expansion and growth in business launch of new products, and to replace exiting staff.

On the other hand, non-bank players had mixed expectations about hiring in 2025. In the January survey, 37 percent respondents indicated that their hiring expectations were largely influenced by the need to reduce costs, improve efficiency and to increase profits by reducing overheads.

Chart 7: Employment expectations for 2025 compared with 2024 (percent)

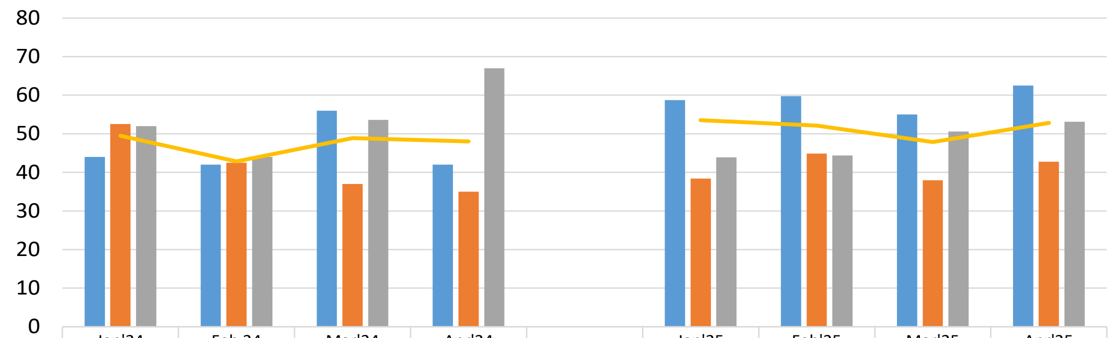


10. OPTIMISM ON THE ECONOMIC PROSPECTS

10.1 Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for the period January to April 2025. The survey revealed the same levels of average forward hotel bookings in the January 2024 and January 2025 survey **(Chart 8).**

Chart 8: Hotel forward bookings (January – April 2025)



	Jan'24	Feb 24	Mar'24	Apr'24		Jan'25	Feb'25	Mar'25	Apr'25
Mombasa	44	42	56	42		59	60	55	63
Nairobi	53	43	37	35		38	45	38	43
rest	52	44	54	67		44	44	51	53
average	50	43	49	48		54	52	48	53

Mombasa Nairobi rest average

Respondents cited weak consumer purchasing power and low demand due to seasonal factors as the drivers of the forward bookings **(Chart 8).**

10.2. Optimism on economic prospects in the next 12 months

The Survey requested bank and nonbank private sector firms to indicate how optimistic or pessimistic they were regarding the country's economic prospects in the next 12 months. Overall, respondents expressed sustained optimism about Kenya's economic prospects for the next 12 months **Charts 9 & 10).**

The optimism was largely attributed to macro-economic stability which is expected to boost the business environment and support economic growth and the expectation that banks will lower interest rates and improve access to funds by businesses at lower rates following the gradual lowering of the CBR rate.

In addition, respondents expect global oil prices to remain stable and hence reduce price pressures and improve consumer and business activity.

However, the main risk to this optimism cited by respondents was reduced consumer demand and high cost of business.

Chart 9: Optimism in growth prospects by banks (% respondents)

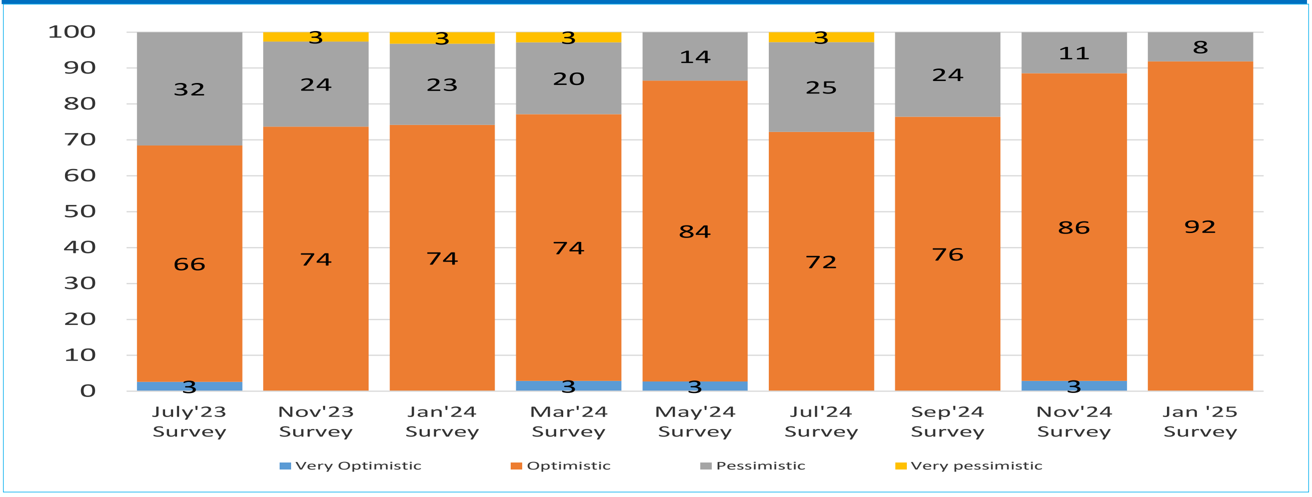
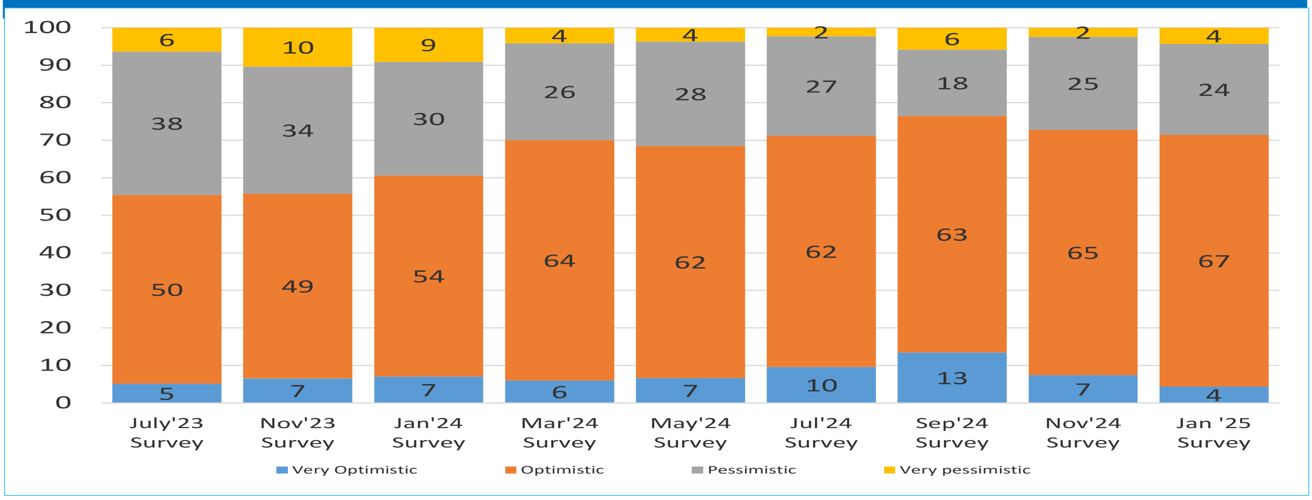


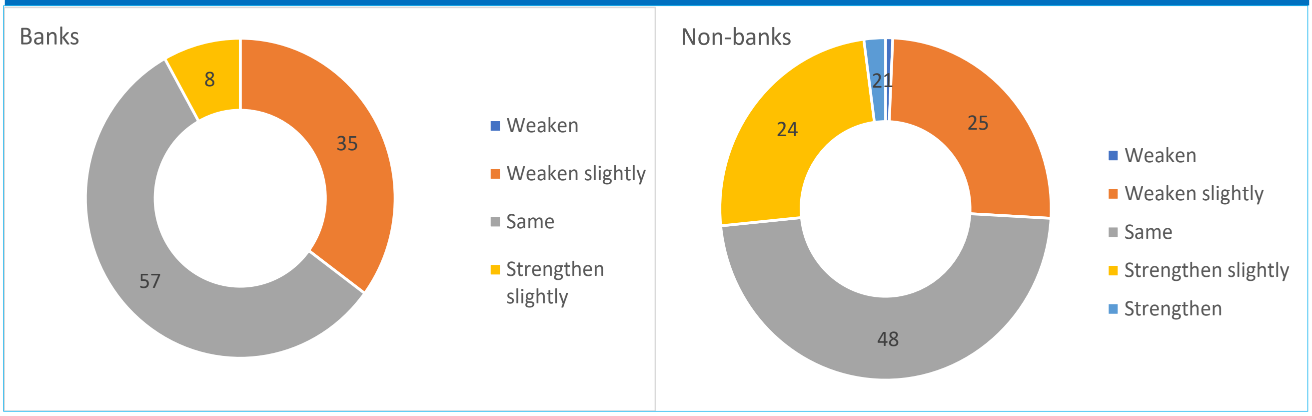
Chart 10 Optimism in growth prospects by non-bank private sector (% respondents)



11. EXCHANGE RATE EXPECTATIONS

The Survey sought from bank and nonbank private sector firms their expectations regarding the direction of change in the exchange rate of the Shilling against the US Dollar in February and March 2025. Respondents expected the exchange rate of the KSh against the USD to remain largely at the current levels in the next 2 months **(Chart 11).**

Chart 11: Exchange rate expectations (% respondents)



Respondents expected support for the shilling to come from adequate forex reserves acting as cover and a buffer against any short-term shocks in the foreign exchange market, improved agricultural exports especially from the horticulture sector, which should see a balance on dollar demand from importers and continued strong inflows from diaspora remittances.

The main risk to the shillings included possible pressure from recovering business activity and renewed demand from consumers and corporates.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

The Survey asked respondents to indicate how the business environment could be enhanced.

Respondents expect a predictable tax environment to enable businesses to thrive, and make planning easier. At the same time respondents suggested that the government gives targeted tax breaks for SMEs and sectors driving economic growth, such as agriculture and manufacturing.

Respondents also communicated the need to adopt policies to spur credit growth including credit risk guarantee schemes to encourage private sector credit growth by banks and enable them to focus on MSMEs and other risky segments with high NPLs. In addition, respondents urged the government to reduce public borrowing to avoid crowding out the private sector.

Bank respondents suggested a review of the legal framework in terms of processes of registration of collateral to improve on turnaround time and efficiencies at the lands registry to enhance closure of pending court cases pertaining to loans recovery.

Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi |Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000

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