Central Bank of Kenya

Market Perceptions Survey

November 2023

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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 enables 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 November 2023 MPC Market Perceptions Survey was conducted in the first two weeks of the month. The Survey aimed at getting perceptions by respondents on selected economic indicators for the previous three months (September, October, and November 2023), expectations for the next three months (December 2023, January, and February 2024), the next one year (December 2023 – November 2024), the next two years (December 2023 – November 2025), and the next five years (December 2023 – November 2028).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 2023 and 2024. In addition, the Survey interrogated market expectations on inflation, economic growth, lending rates, levels of operations by companies, and private sector credit growth.

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 354 private sector firms comprising 38 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 November 2023 Survey was 65 percent of the sampled institutions. The respondents comprised 36 commercial banks, nine micro-finance banks, and 186 other non-bank private sector firms.

The responses 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 November 2023 Market Perceptions Survey included:

1. Overall inflation is expected to remain sticky in the upper bound of the target range in the next three months.
2. Mixed expectations by banks and non-banks on economic activity in December 2023 to February 2024.

3. Economic growth is expected to remain resilient in 2023 and to improve in 2024 largely supported by increased agricultural production. However, risks of high cost of doing business remain.
4. Mixed employment expectations for 2024.
5. Banks expect private sector credit in 2024 to grow at roughly the same rate as in 2023, mainly supported by expected turnaround in the economy and increased short-term borrowing to support working capital needs.
6. Respondents remain optimistic about Kenya's economic prospects in the next 12 months, nevertheless non-banks scaled down their optimism levels.
7. Improved average forward hotel bookings over the next 4 months compared to same period in 2022-2023.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next three months (November 2023, December 2023 and January 2024), the next 12 months (December 2023 – November 2024), the next 2 years (December 2023 – November 2025), and the next 5 years (December 2023 – November 2028). Respondents expected inflation to remain sticky in the next 3 months **(Table 1).**

In the near term, 73 percent of the respondents expected the upward pressure on inflation to arise from high local pump prices resulting from high global crude oil prices as well as increased VAT on petroleum products. On the other hand, 37 percent and 25 percent of the respondents, respectively, expect elevated inflation to emanate from expensive imports and potentially higher than normal post-harvest losses due to the heavy rains in some parts of the country.

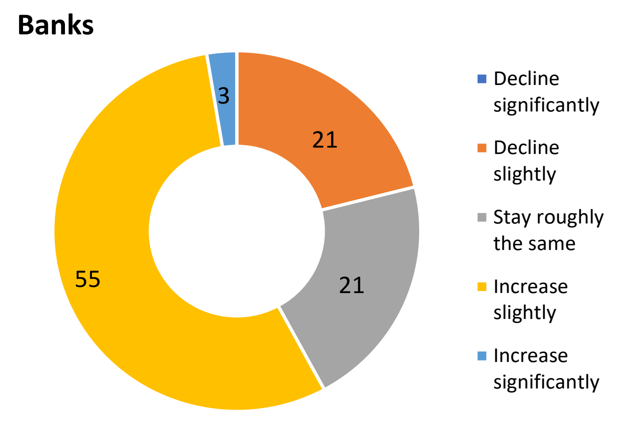
Nevertheless, respondents expected the upward pressure on inflation to be moderated by lower food prices occasioned by improved supply because of the ongoing harvest season.

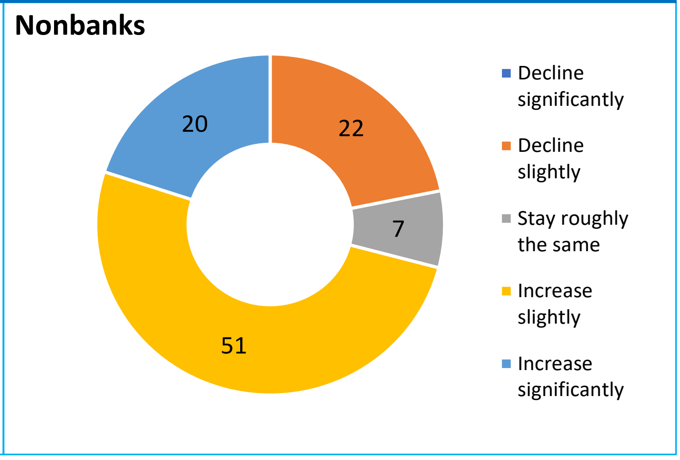
Table 1: Inflation expectations for November 2023 to January 2024 (percent)

Survey month	Inflation expectations			Actual inflation	Deviations	
		Banks	Non-banks		Banks	Nonbanks
Nov-21	Nov-21	6.38	6.25	5.80	0.58	0.46
	Dec-21	6.50	6.15	5.73	0.77	0.42
Jan-22	Jan-22	5.65	5.76	5.39	0.27	0.37
	Feb-22	5.63	5.81	5.08	0.54	0.73
Mar-22	Mar-22	5.39	5.75	5.56	-0.17	0.20
	Apr-22	5.52	5.97	6.47	-0.95	-0.50
May-22	May-22	6.93	7.04	7.08	-0.15	-0.04
	Jun-22	7.22	7.27	7.91	-0.69	-0.64
Jul-22	Jul-22	8.07	7.38	8.32	-0.24	-0.93
	Aug-22	8.20	7.62	8.53	-0.32	-0.91
Sep-22	Sep-22	8.52	8.28	9.18	-0.66	-0.89
	Oct-22	8.50	8.18	9.59	-1.09	-1.41
Nov-22	Nov-22	9.73	9.64	9.48	0.25	0.16
	Dec-22	9.76	9.54	9.06	0.70	0.47
Jan-23	Jan-23	9.03	8.88	8.98	0.05	-0.10
	Feb-23	8.87	8.79	9.23	-0.36	-0.44
Mar-23	Mar-23	9.23	8.87	9.19	0.04	-0.32
	Apr-23	9.12	8.91	7.90	1.21	1.01
May-23	May-23	7.98	7.39	8.03	-0.05	-0.64
	Jun-23	7.81	7.40	7.88	-0.07	-0.49
Jul-23	Jul-23	8.01	7.83	7.28	0.73	0.55
	Aug-23	8.07	7.83	6.73	1.35	1.11
Sep-23	Sep-23	6.45	6.54	6.78	-0.34	-0.24
	Oct-23	6.27	6.52	6.92	-0.65	-0.40
Nov-23	**Nov-23**	**6.97**	**7.02**	**6.80**	**0.17**	**0.22**
	Dec-23	**7.16**	**7.12**			
	Jan-24	**7.22**	**7.21**			

At the same time, 58 percent of banks and 71 percent of non-bank private firms expected upward pressure on inflation in the next three months (percent respondents). The elevated inflation is expected to come from the high cost of doing business exacerbated by the impact of increased taxation, and increased demand for consumer goods and services including transport and accommodation during the festive season **(Chart 1)**.

Chart 1: Inflation expectations for November and December 2023 (percent)

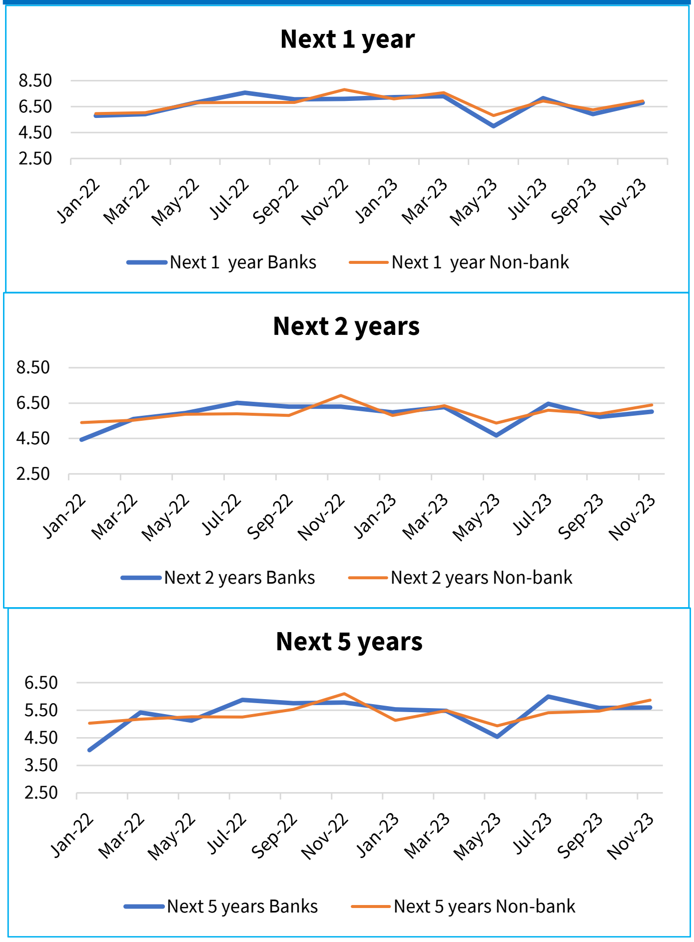




Over the medium term, respondents expect inflation to remain in the target range largely due to declining prices of food items that the country imports and expected stability in food prices as focus shifts towards boosting and subsidizing production **(Chart 2).**

However, respondents indicated the following risks to the inflation outlook: high global crude oil prices, high electricity costs and continued impact of the removal of fuel subsidies, introduction of new taxes, the impact of local currency depreciation on locally manufactured and imported commodity prices, and uncertainties and supply chain disruptions in the global market caused by geopolitical tensions in Russia and the Middle East.

Chart 2: Inflation expectations for the medium term (percent)



6. ECONOMIC ACTIVITY

The November 2023 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in September, October and November, and their expectations for December 2023, January 2024 and February 2024. Respondents expressed mixed expectations on economic activity in December 2023 to February 2024 **(Charts 3 & 4).**

Banks expected moderate economic activity while non-banks expected moderate to weak activity in the next three months. Of the total respondents, 69 percent cited high cost of living that is constraining consumer demand and reducing capacity for local investments, high cost of borrowing and increased cost of production as the main risks to economic activity.

In addition, 30 percent of the respondents cited increased taxation and concentration of tax burden on a small tax base, which is contracting household consumption demand, private sector investment and employment, as factors that are adversely affecting incentives to work and invest more.

Nevertheless, 60 percent of the respondents expected economic activity to be supported by increased agricultural output from ongoing harvests and the current rains as well as a resilient services sector boosted by the festive expenditure spending.

Chart 3: Expected economic activity by banks (percent of respondents)

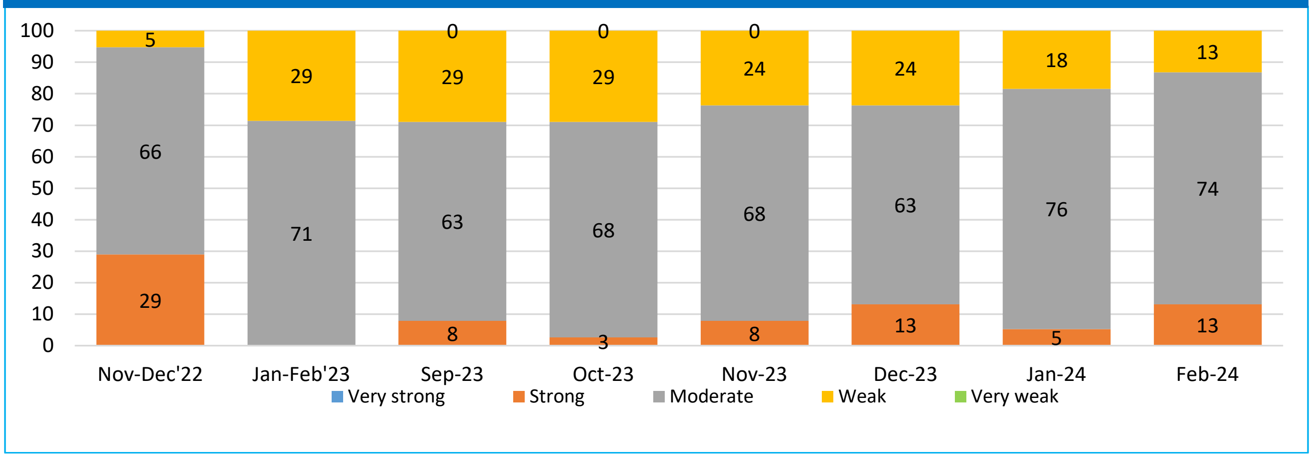
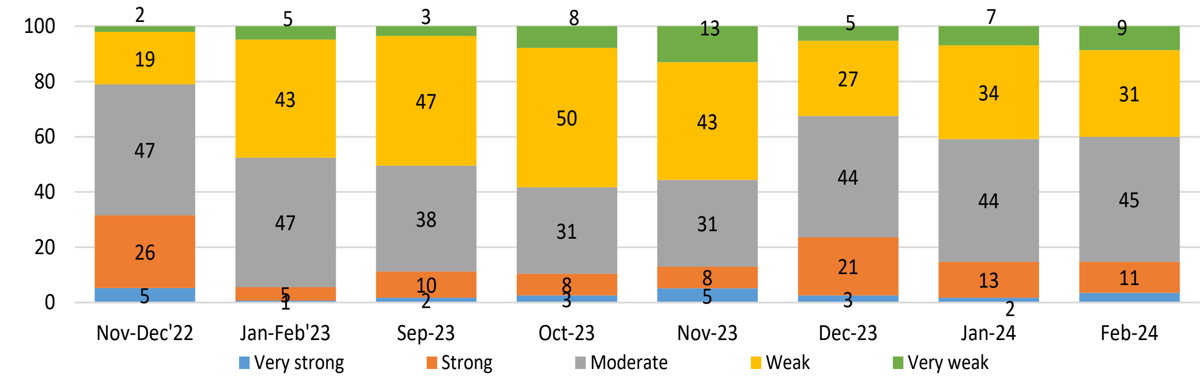


Chart 4: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit by end December 2023 and end December 2024

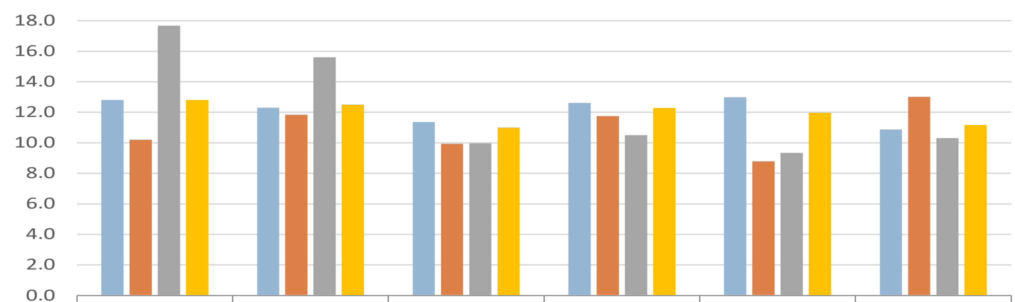
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector by end December 2023 compared with end December 2022, and by how much banks looked to grow credit in 2024. Respondents expected stable growth in private sector credit in 2023 relative to 2022, and a more or less equivalent growth in 2024 relative to 2023 **(Charts 5 & 6).**

Respondents expected private sector credit growth in the remainder of 2023 to be supported by expected increased demand for working capital due to increase in commodity and raw material prices, Shilling depreciation, increase in interest costs, increased cost of doing business and increased demand to finance goods for the festive season.

In addition, the need to support MSMEs and tap into sectors poised to grow significantly due to the government interventions as well as favourable weather was expected to boost private sector credit.

However, risks to the expected credit growth cited by respondents included economic uncertainty occasioned by high inflation which has reduced disposable income and demand for credit and high cost of doing business, which has caused banks to become very cautious in lending to the private sector to minimize the risk of default.

Chart 5: Expectations on private sector credit growth 2023 (percent)

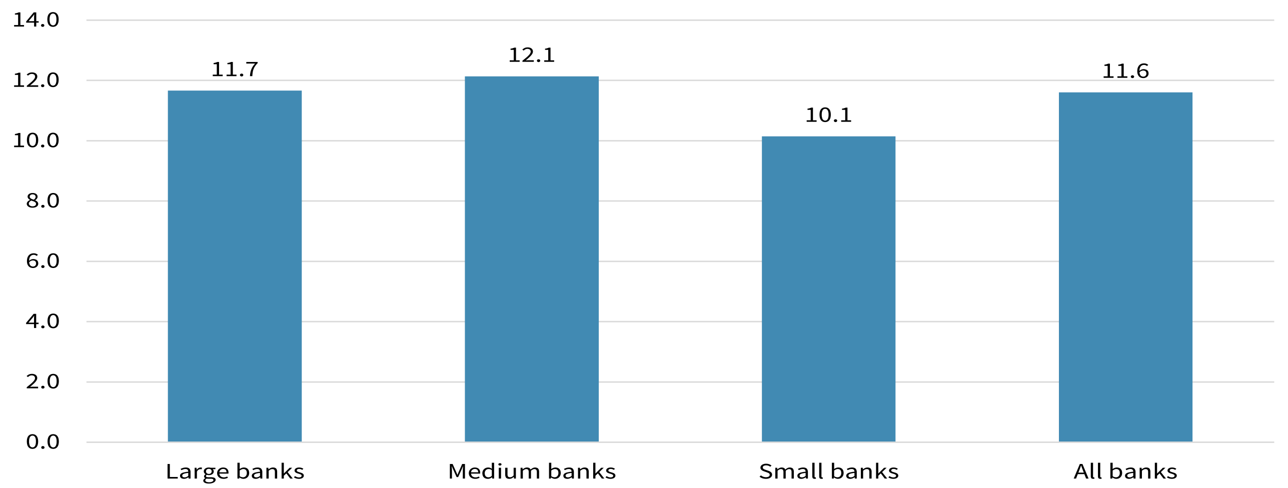


	January	March	May	July	September	November
Large banks	12.8	12.3	11.4	12.6	13.0	10.9
Medium banks	10.2	11.8	9.9	11.8	8.8	13.0
Small banks	17.7	15.6	10.0	10.5	9.3	10.3
All banks	12.8	12.5	11.0	12.3	12.0	11.2

In 2024, credit growth is expected to be supported by anticipated economic turnaround in the country which will induce the need for business financing and increased demand of capital by SME's. Further boost for credit growth is expected from higher demand for more capital investments due to continued rise in cost of inputs. This is in addition to the demand arising from the high cost of living and weak shilling. Furthermore, respondents expected the efforts by Government to spur growth in key sectors such as housing, hence credit growth.

Risks to expected credit growth included contracting disposable incomes on account of inflation and depreciation of local currency, increase in interest rates, commodity, and raw material prices, as well as fuel costs.

Chart 6: Expectations on private sector credit growth 2024 (percent)

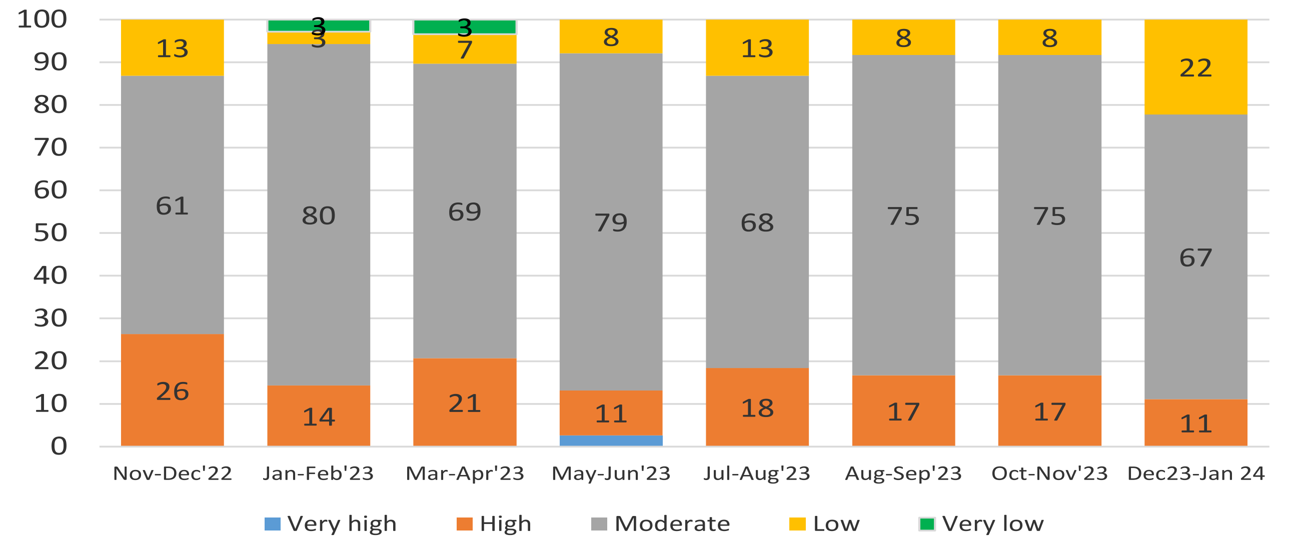


The Survey requested bank respondents for an assessment of credit demand from their perspective, during the two months before the MPC meeting (i.e., October and November 2023), and their expectations for December 2023 and January 2024 **(Chart 7).**

Bank respondents expected moderate to high demand for credit in December 2023 and January 2024 driven by businesses looking to stock up for the festive season and new school year financial obligations, working capital financing requirements, to cater for high cost of inputs and for businesses to cushion themselves against slow- down in collections and payments by customers.

However, banks expect demand for credit to be dampened by reduced incomes, high interest rates and increased cost of borrowing, the weakening of the shilling, likely to impact negatively on trade activities and cause importers to adopt a wait and see attitude.

Chart 7: Expectations on Demand for credit from banks' perspective (percent of respondents)



8. EXPECTED ECONOMIC GROWTH

The Survey requested participants to indicate their estimated economic growth rates for the country in 2023, in 2024 and in the next 5 years (2027). Respondents expected relatively strong economic growth in 2023 largely supported by agriculture **(Table 2).**

About 69 percent respondents expected support to economic growth in 2023 to come from the agricultural sector, following favourable weather conditions and input subsidies. Additionally, 46 percent and 39 percent respondents, respectively expected the tourism sector recovery to pre-Covid levels and the resilient services sector to support growth in 2023.

However, 73 percent of the respondents indicated that there were risks to economic growth arising from high cost of doing business, high cost of borrowing that is constraining disposable incomes leading to the rise in non-performing loans as economic actors struggle to repay existing facilities, Shilling depreciation, and increased taxation by KRA and County governments.

In addition, 69 percent of the respondents cited the current tax regime as a potential risk to economic growth, indicating that it was pushing away investors from the country and was expected to reduce aggregate demand, private sector investment and employment while adversely affecting incentives to work and invest more.

Lastly, 69 percent respondents expected the sustained high interest rates to dampen the growth outcome in 2023.

Table 2: Expectations on economic growth for 2023 (percent)

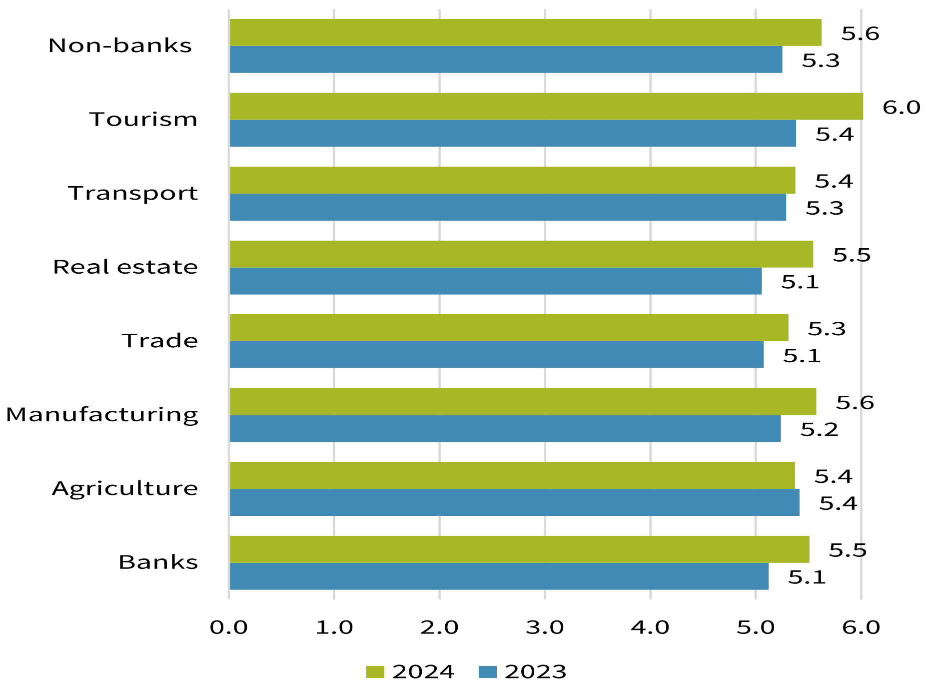
	Jan-23	Mar-23	May-23	Jul-23	Sep-23	**Nov-23**
Banks	5.3	5.3	5.1	5.0	4.9	**5.1**
Agriculture	6.3	5.9	4.9	5.5	5.3	**5.4**
Manufacturing	6.0	5.5	4.8	4.9	5.0	**5.2**
Trade	5.9	5.0	4.6	5.3	5.2	**5.1**
Real estate	5.3	5.0	5.2	5.1	4.6	**5.1**
Transport	5.3	5.2	3.8	5.5	5.2	**5.3**
Tourism	6.4	6.1	6.1	5.6	5.0	**5.4**
Non-bank	6.0	5.5	4.7	5.4	5.2	**5.3**

The respondents however expected stronger economic growth in 2024 compared to 2023 supported by strong agriculture performance due to favourable weather patterns, access to affordable farm inputs from government subsidies, and better prices for farm produce **(Chart 8).**

Respondents also expected government expenditure on development areas such as affordable housing, universal health coverage and food security efforts to support economic growth in 2024.

However, respondents cited increased taxation, depreciating currency, high cost of living and high interest rates, and tight fiscal and monetary policy as potential risks to economic growth in 2024.

Chart 8: Expected economic growth in 2023 and 2024 by sector (%)



9. EMPLOYMENT EXPECTATIONS

Respondents were asked about their expectations on the number of employees they expect to retain in 2024 compared with 2023, and the expected structure of employees in terms of permanent, contract or casual. The results showed mixed expectations between bank and non-bank respondents **(Charts 9 &10).**

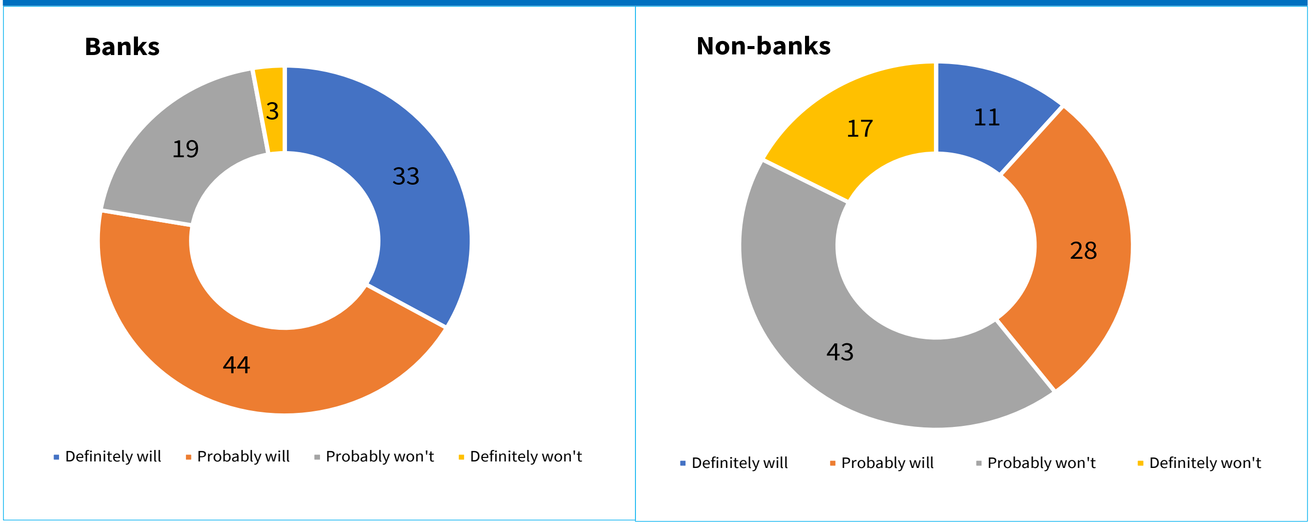
Banks are expected to hire in 2024 based on the need to grow business, revenue, and expansion/ additional branches, the need to attract new talent and replace exiting staff, and economic performance in the country and Government's policies regarding various trade aspects.

However, the bank respondents indicated that the numbers hired would be affected by the need to continue with the digital adoption strategy targeted at reduction of operational resources and the need to utilize the available resources to optimize productivity.

Non-banks respondents on the other hand expressed mixed expectations on hiring. Some expected to increase the number of employees based on the need to expand and grow their businesses.

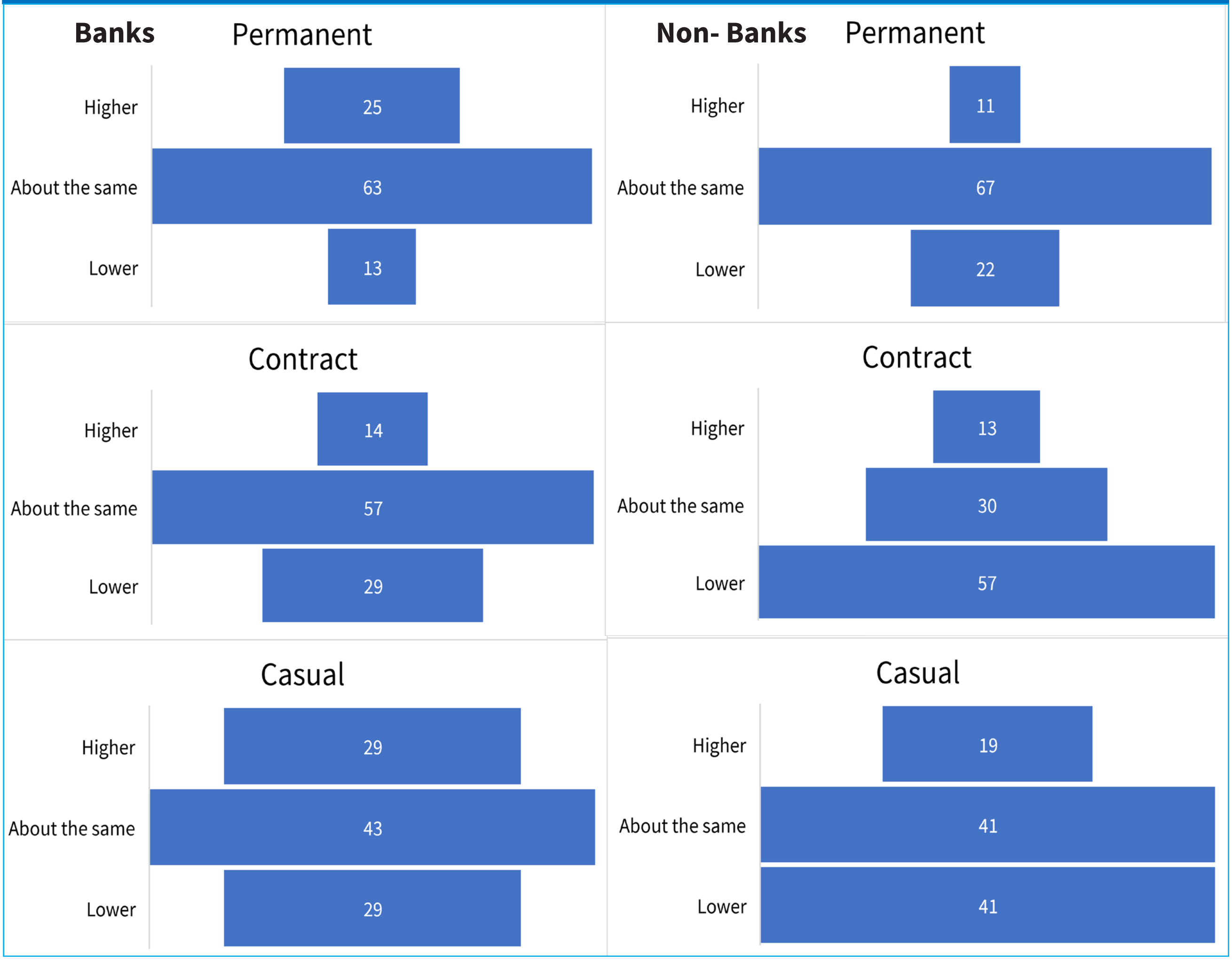
Some non-bank respondents, however, cited the need to reduce costs of running businesses, improve efficiency, low turnover in business, drop in sales and decline due to high taxation and high fuel prices, high input costs and possible layoffs resulting from the need to stay afloat, as risks to new hires in 2024.

Chart 9: Employment expectations for 2024 compared with 2023 (percent)



Furthermore, 88 percent of banks and 78 percent of nonbanks expect to either retain or increase their permanent workforce, 57 percent of non-banks expect to lay-off their contract staff, and 41 percent non-banks expect to lay off their casual workers in 2024 **(Chart 10).**

Chart 10: Mixed employment expectations for 2024 compared with 2023 by banks and non-banks (percent)



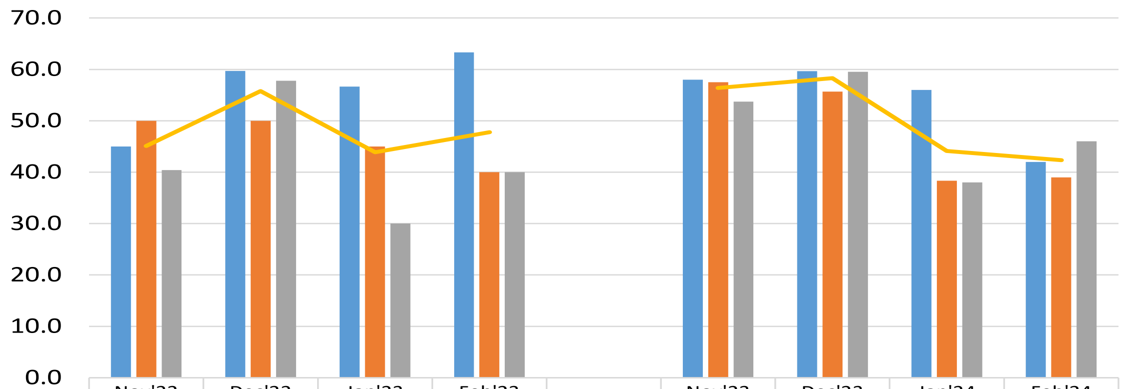
10. OPTIMISM ON THE ECONOMIC PROSPECTS

10.1. Hotel forward bookings

The Survey requested hotel respondents to indicate the forward bookings received so far for November and December 2023, and January and February 2024. Results showed increased average forward bookings **(Chart 11).**

Respondents indicated that forward bookings were supported by increased international travel. However, respondents expected a shift towards more local tourists due to the holiday season, but still expected a substantial number of foreign visitors. In addition, respondents indicated that January and February were traditionally low periods for the industry and therefore anticipated a decline in business particularly from local customers. Additionally, respondents cited a short turnaround period for business bookings unlike in the past and that booking decisions were being made and confirmed within 14 -24 days.

Chart 11: Hotel forward bookings (November 2023 – February 2024)



	Nov'22	Dec'22	Jan'23	Feb'23		Nov'23	Dec'23	Jan'24	Feb'24
Mombasa	45.0	59.7	56.7	63.3		58.0	59.7	56.0	42.0
Nairobi	50.0	50.0	45.0	40.0		57.5	55.7	38.3	39.0
rest	40.4	57.8	30.0	40.0		53.7	59.6	38.0	46.0
average	45.1	55.8	43.9	47.8		56.4	58.3	44.1	42.3

Mombasa Nairobi rest average

10.2. Optimism on economic prospects in the next 12 months

The Survey requested bank and nonbank private sector firms to indicate their optimism or pessimism regarding the country's economic prospects in the next 12 months. Respondents remained optimistic about Kenya's economic prospects in the next 12 months. Nevertheless most non-banks scaled down their optimism level **(Charts 12 & 13).**

Respondents cited favourable weather which is expected to increase agricultural output and lead to lower inflation and economic recovery, resilient services sector and anticipated support from development partners which is expected to improve foreign direct investment as reasons for this optimism.

However, respondents cited high cost of living, taxation, high cost of borrowing, and high interest rates as risks to this optimism.

Chart 12: Optimism in growth prospects by banks (% respondents)

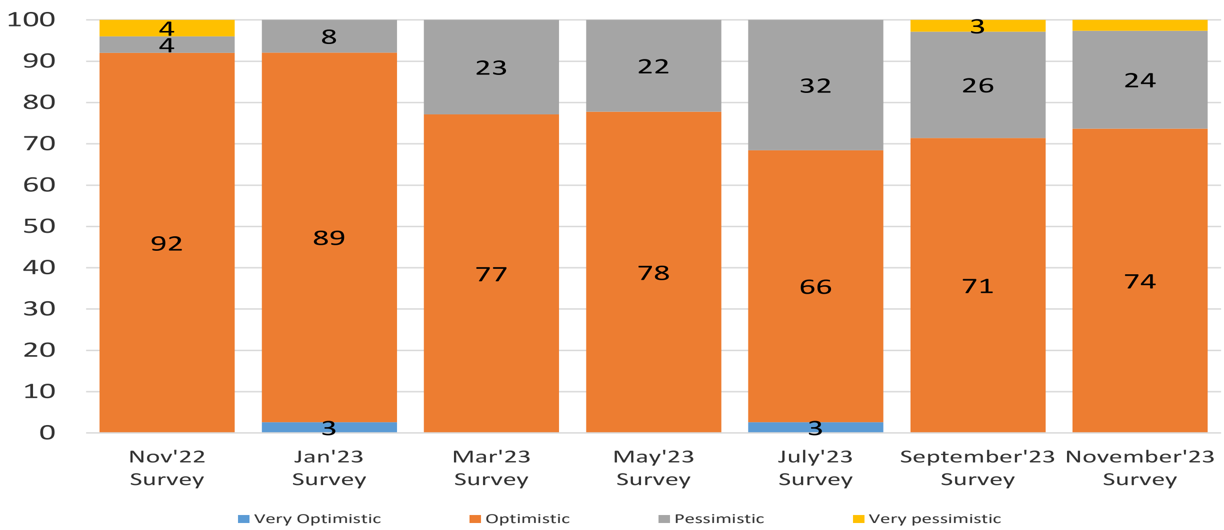
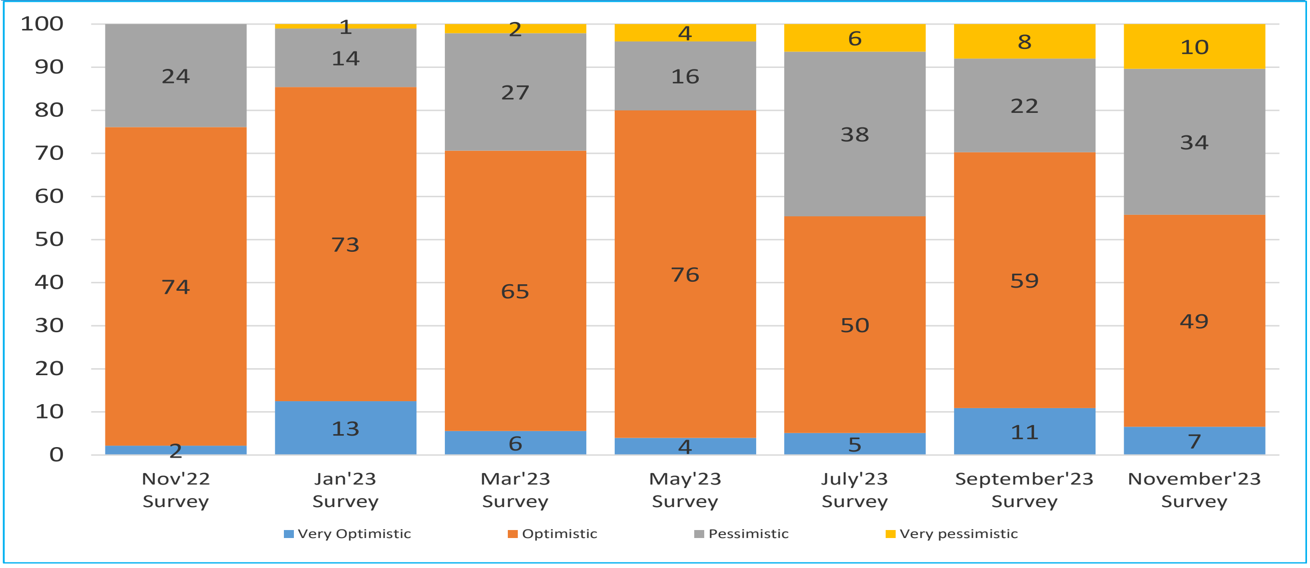


Chart 13: Optimism in growth prospects by non-bank private sector (% respondents)



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 December 2023 and January 2024.

Respondents expected the falling import bill to reduce pressure on the demand for hard currencies, in addition to expected support from the development partners and the steady diaspora remittances.

However, some respondents expected some pressure on the exchange rate from maturing debt obligations, persistent dollar demand from importers, weak exports and foreign direct investments, and sustained US dollar strength.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Respondents suggested that the economy would improve if the Government kept expenditure levels stable, and if expected inflows from development partners came through, which would bolster the economy's ability to service its debts whilst maintaining a healthy liquidity level.

In addition, respondents expected the plan by the Government to settle the Eurobond maturing in 2024 to improve sovereign's debt options. Furthermore, respondents suggested that reduced policy and political uncertainty would enhance private sector consumption and investment.

Finally, respondents suggested that efforts to lower food prices and pump prices would help reduce inflation and improve the business environment.

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