Central Bank of Kenya

Monetary Policy Committee Market Perceptions Survey

January 2022

CONTENTS

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 January 2022 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 two months (November and December), and expectations for the next two months (January and February), the next one year (January – December 2022), the next two years (January 2022 – December 2023), and the next five years (January 2022 – December 2026).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 2022. 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 356 private sector firms comprising 38 commercial banks, 1 mortgage finance institution, 14 microfinance banks (MFBs) and 302 non-bank private firms, including 84 hotels, through questionnaires sent in hard copy and by email. The overall response rate to the January 2022 Survey was 61 percent of the sampled institutions. The respondents comprised 38 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 165 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 2022 Market Perceptions Survey included:

- Inflation expectations remain anchored within the target range in the next 2 and 12 months.
- Economic activity expected to moderate temporarily in January and February from the festive season levels, but to improve as the year progresses.
- Mixed expectations by respondents with regard to Operation levels in 2022.
- Economic growth expected as key sectors recover from the pandemic.
- Banks expect an increase in private sector credit growth in 2022.
- Sustained optimism in the country's economic prospects in the next 12 months.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (January and February 2022), the next 12 months (January – December 2022), the next 2 years (January 2022 – December2023), and the next 5 years (January 2022 – December 2026) **(Tables 1 & 2).**

Respondents expected a decline in inflation in the next 2 and 12 months supported by continued reduction in food prices and government interventions in fuel and electricity prices.

However, respondents indicated that increased demand for goods & services as the economy recovers, and rising global oil prices could exert some upward pressure on inflation.

Table 1: Inflation expectations for January and February 2022, and for the next 12 months (percent)

Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
Jan-Feb 2021	5.9	5.7	5.7	5.8	5.6	5.8
Mar-Apr 2021	6.1	6.0	5.9	6.0	5.6	5.9
May-Jun 2021	5.9	5.9	5.7	5.9	5.5	5.8
Jul-Aug 2021	6.9	6.7	6.5	6.8	6.7	6.5
Sep-Oct 2021	6.8	6.8	6.6	6.8	6.7	6.6
Nov-Dec 2021	6.4	6.6	6.5	6.4	6.3	6.3
Jan-Feb 2022	5.6	5.8	5.8	5.6	5.7	5.8
INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS						
Mar '21 Survey	6.1	5.9	5.8	6.0	5.4	6.0
May '21 Survey	5.7	5.9	5.8	5.8	5.5	6.0
Jul '21 Survey	6.5	6.2	6.3	6.4	6.4	6.4
Sep'21 Survey	6.3	6.3	6.5	6.4	6.4	6.5
Nov'21 Survey	6.2	6.5	6.2	6.2	6.0	6.1
Jan'22 Survey	5.7	5.9	6.0	5.8	5.8	6.0

For the medium term, respondents expected economic growth to be stable and inflation to remain within the target range.

Table 2: Inflation expectations for the next 2 and 5 years (percent)

Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
Next 2 years	4.5	3.9	5.1	4.4	5.4	5.4
Next 5 years	4.0	3.9	4.9	4.1	5.0	5.0

6. ECONOMIC ACTIVITY

6.1. Economic activity

The January 2022 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in November and December 2021, and their expectations for January and February 2022. Respondents expected economic activity to moderate temporarily from the festive season levels in January and February, but to improve as the year progresses **(Chart 1 & 2).**

Approximately 60 percent of the respondents expected the easing of COVID-19 restrictions locally and globally, declining infections, and notable increase in uptake of vaccines to boost economic activity in January and February. Back to school activities and spending, and front loading by businesses to achieve high performance in a bid to safeguard against any election disruptions later in the year were cited by 35 percent of respondents as factors that would support economic activity in January and February.

However, respondents indicated that uncertainties around the COVID-19 pandemic and the variants remained as risks to economic activity in the next 2 months (54 percent respondents).

Chart 1: Expected economic activity by banks (percent of respondents)

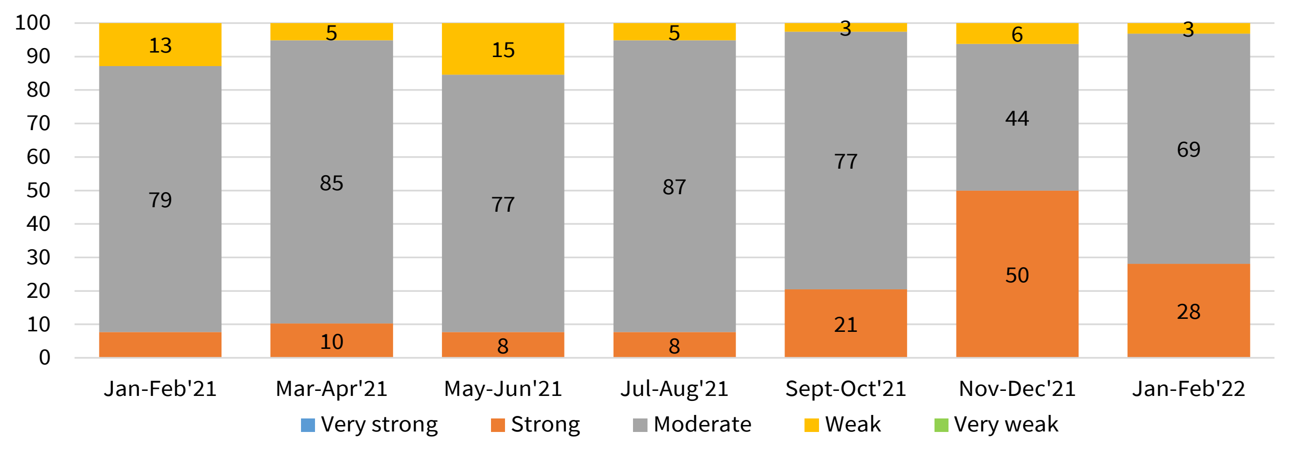
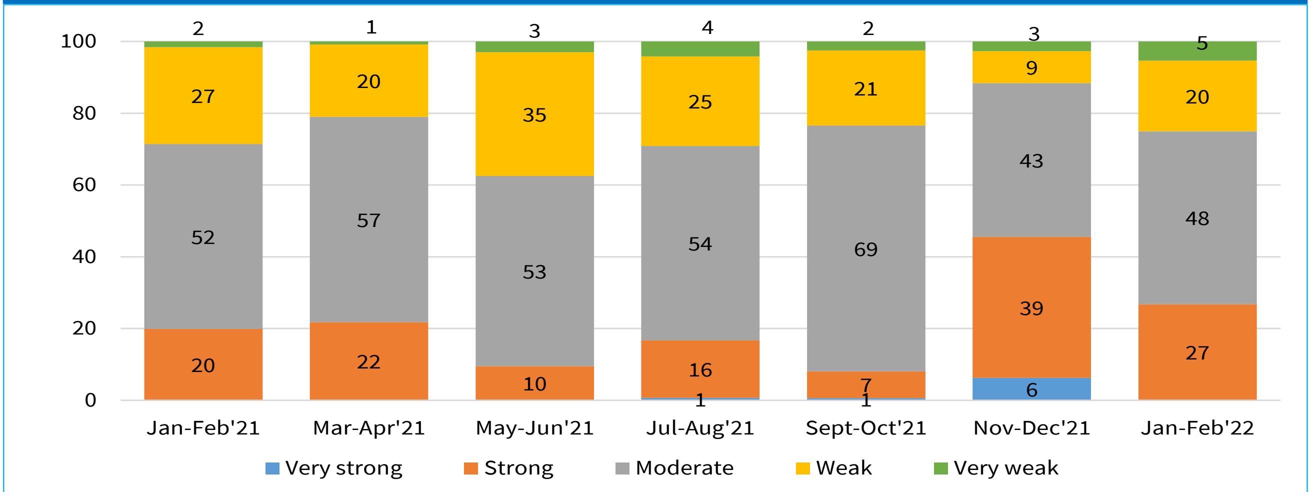


Chart 2: Expected economic activity by non-bank private sector (percent of respondents)



6.2. Firms' Operations levels

The Survey sought to find out from respondents the levels of operation (functioning, running and performance) during Q4 2021, and expected levels of operations for Q1, Q2, Q3 and Q4, 2022. Compared with the respective pre-COVID-19 operation levels given in the November 2021 survey, the results showed mixed expectations by banks and non-bank private sector **(Chart 3).**

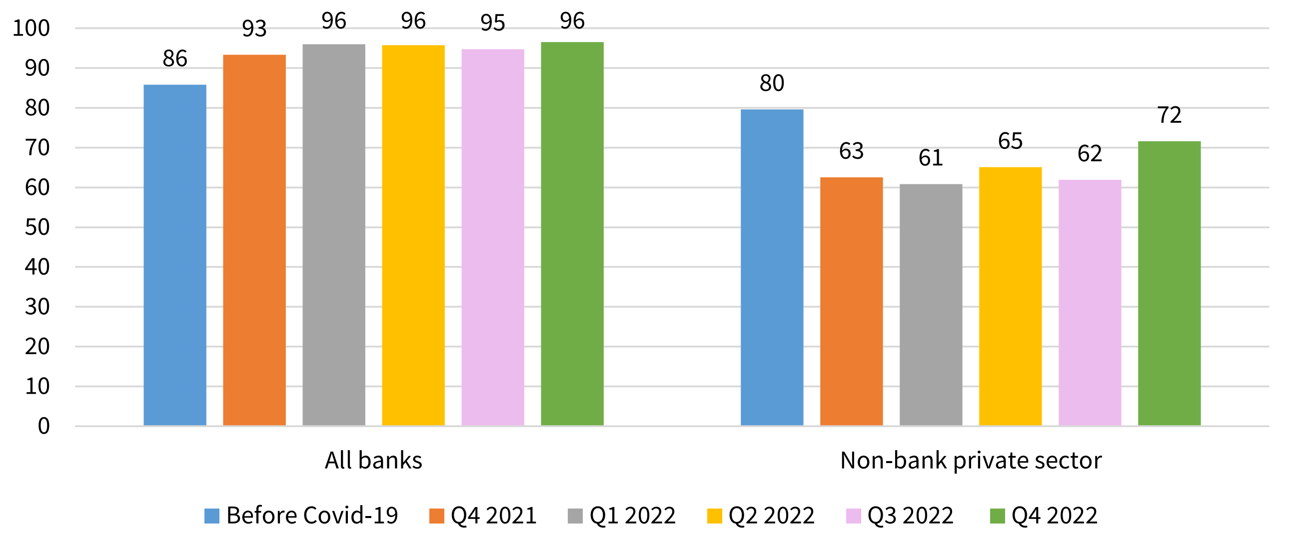
Bank respondents reported to having surpassed the pre-COVID-19 operation levels and were on course to higher levels in 2022. Respondents indicated that banks had exceeded pre-COVID operations levels in Q4, 2021, and expected to operate optimally in Q1 supported by the opening up of the economy, and the reduced severity and better management of the pandemic, on account of increased number of people receiving vaccines. Respondents expected a faster recovery of the economy and reduced severity of the COVID-19 pandemic to drive operation levels in the subsequent quarters of 2022, despite the increased political activities.

Non-bank private firms reported operation levels below the pre-COVID -19 in Q4 2021, and expectations of similar operation levels in Q1, Q2, Q3 and Q4, 2022 due to the slow recovery from the effects of the pandemic, political uncertainties, and normal business cycles.

Hotel respondents expected a slow start in 2022, but for operations to pick up gradually as the year progresses citing seasonality, international travel restrictions and resumption of the school calendar as reasons for the slow start. However, hotel respondents expected conferencing and some holiday activities, operating in a restriction-free environment and increasing vaccinations in the country to support operations.

Other non-bank respondents expected the normal business cycles occasioned by rainfall patterns for agriculture, school calendar, and political uncertainties to affect operation levels in 2022.

Chart 3: Operation levels of banks and non-banks (percent)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

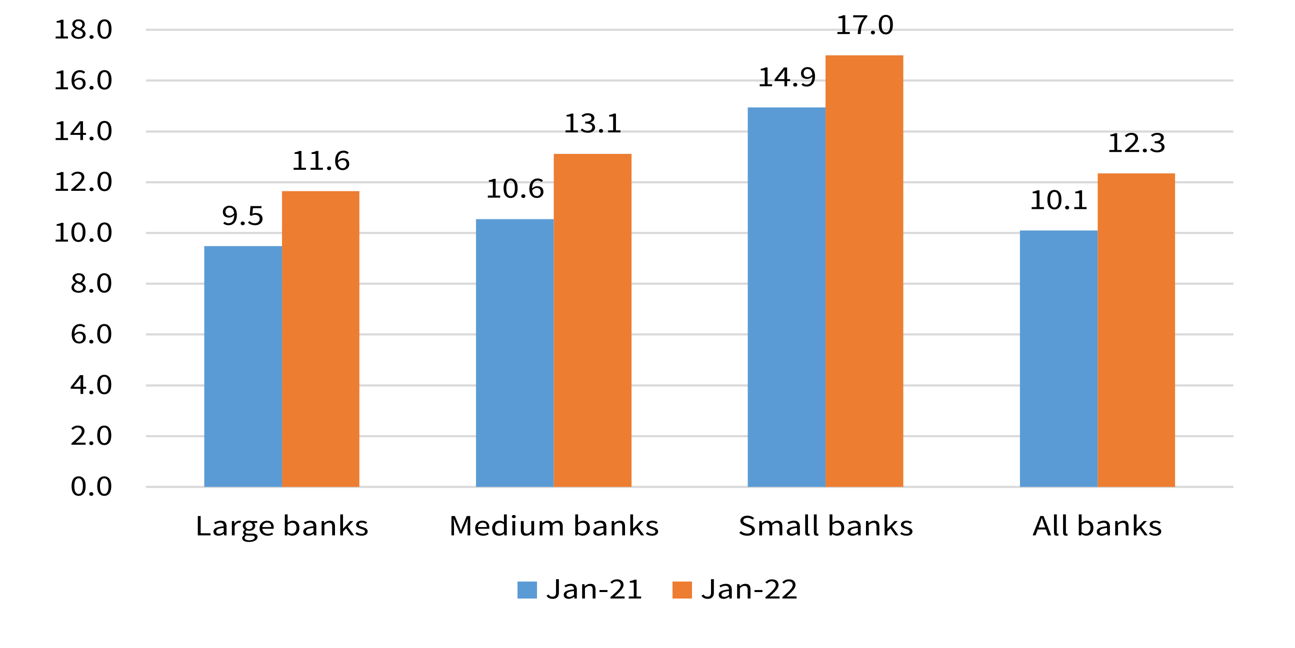
7.1. Growth in private sector credit in 2021

The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2022 relative to 2021. Respondents expected an increase in private sector credit growth in 2022 relative to 2021 **(Chart 4).**

Approximately 72 percent of respondents expected private sector credit growth to be supported by demand for credit arising from economic recovery of sectors previously affected by COVID-19 after full re-opening of the economy, support to these sectors through development of innovative products as businesses borrow to restore their operations, and increased vaccination, expected to allow more businesses to reopen. In addition, 33 percent respondents expected more focus on supporting the MSMEs and the key sectors of the economy as they recover from the effects of containment measures through various financing options including collaborating with financial institutions and the credit guarantee scheme to support private sector credit growth in 2022.

Risks to private sector credit growth cited by respondents included political risk, delay in payments to suppliers and contractors by the government and private sector companies, and non-performing loans as risks to private sector credit growth.

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



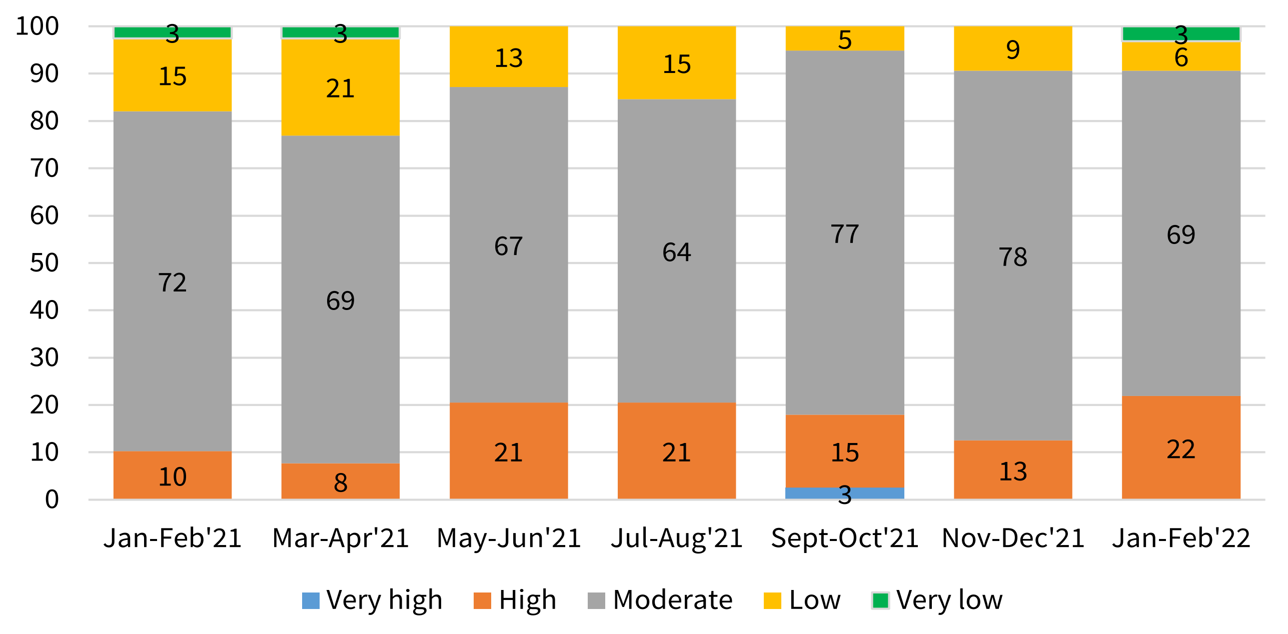
7.2. Expected demand for credit

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. November and December 2021), and their expectations for January and February 2022 **(Chart 5).**

Respondents expected moderate demand for credit by borrowers in January and February, driven by the need for working capital to re-stock and build inventories upon reopening after the festive period, increasing economic activities, resumption of businesses to full capacity, need to safeguard against constrained global supply chains caused by logistical issues, and the fast spreading Omicron variant (74 percent respondents). In addition, 21 percent of respondents expected higher demand for credit to arise from the need to settle school related financial obligations.

However, about 58 percent of respondents expected the cautious wait and see approach by investors due to possible political risk in an election year to slow down demand for credit in the next 2 months.

Chart 5: 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 2022, in the next 2 years (2023), and in the next 5 years (2026). Respondents expected the economy to grow in 2022 with recovery of key sectors after the pandemic **(Charts 6 & 7).**

Approximately 58 percent of respondents expected recovery of key sectors, increased domestic and global demand, and increased activities following lifting of restrictions as more businesses recover from the pandemic to drive economic growth in 2022. Another 58 percent respondents cited better economic prospects, anchored on optimism, the significant progress in vaccinations and expectations of peaceful elections, the inherent strengths of the economy, including its diversified nature, enterprising people and innovative culture to support economic growth, while 42 percent of respondents expected government stimulus programmes and infrastructure spending by government agencies to support growth in 2022.

However, risks to 2022 growth included increasing political risks and uncertainty, likely to slow economic activity and lead to delayed investments as businesses adopt a wait and see attitude (66 percent respondents), and the lingering effects and unpredictability of the COVID-19 pandemic (23 percent respondents).

Respondents indicated that their medium term outlook remained anchored on optimism, and assumed normal activity as GDP returns to trend levels.

Chart 6: Expectations on economic growth for 2022 (percent)

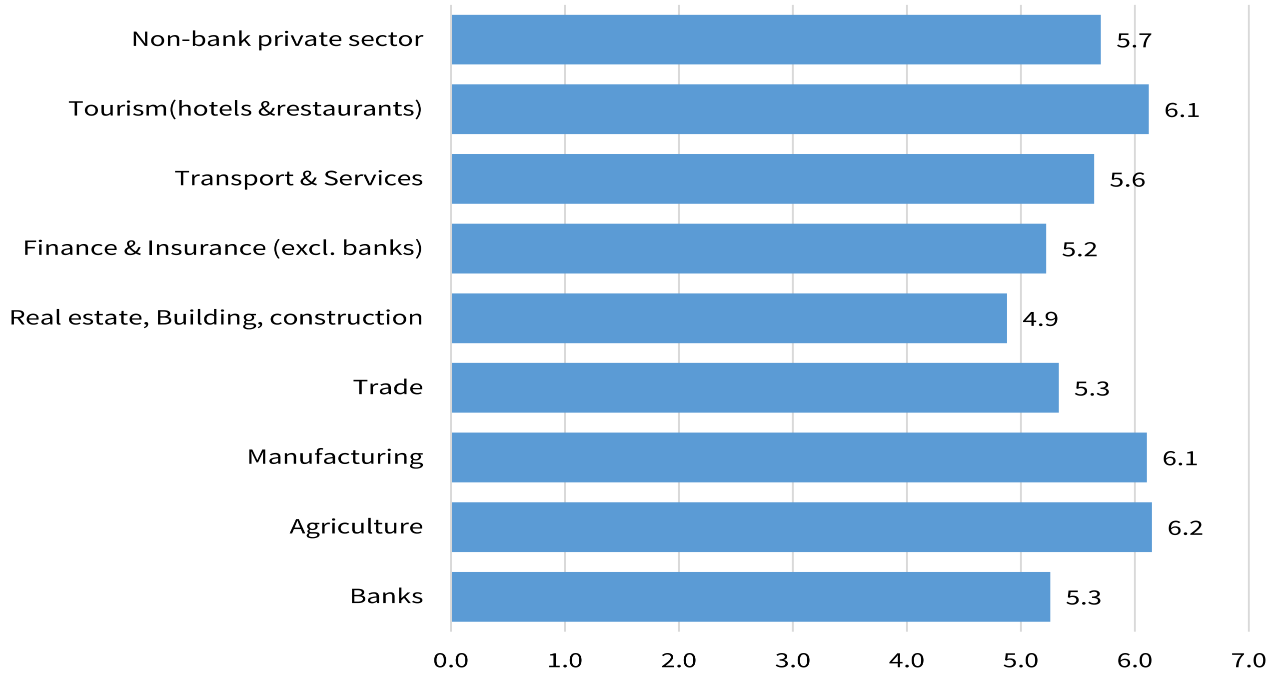
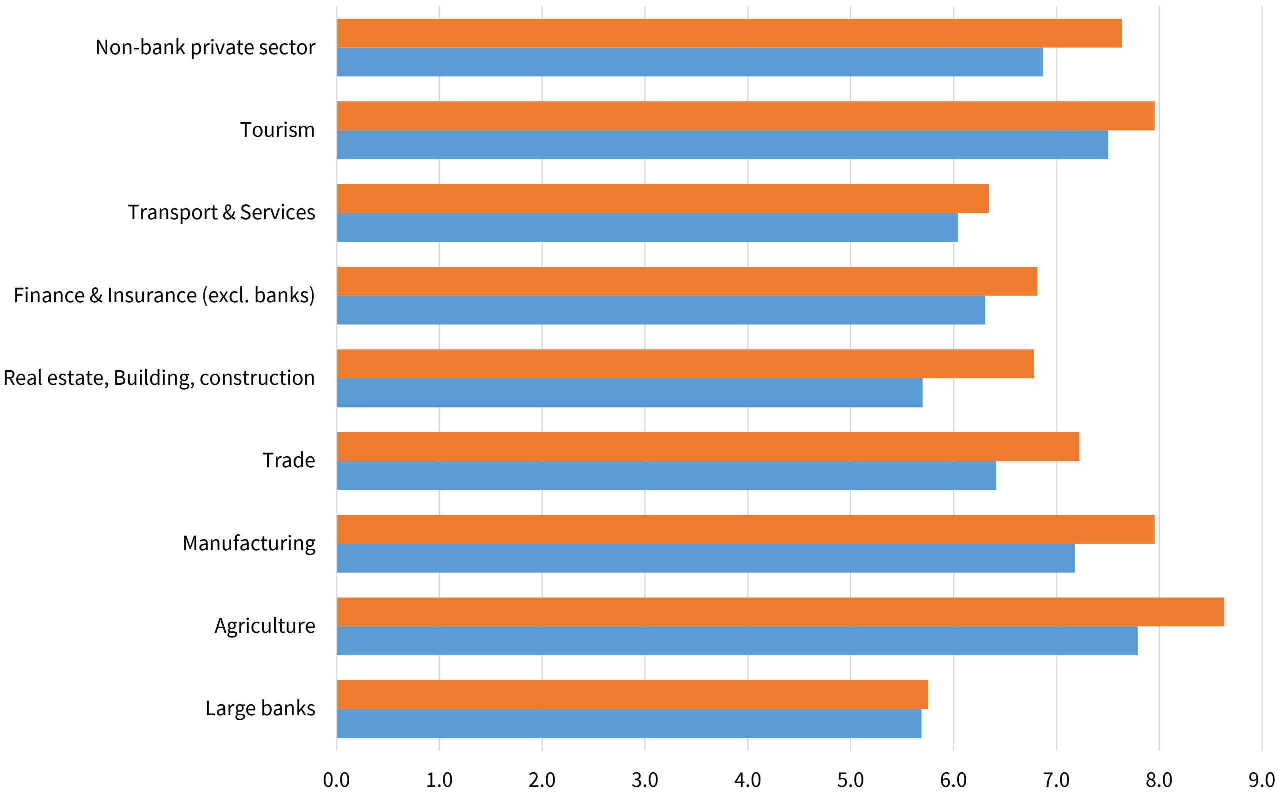


Chart 7: Expectations on economic growth for the next 2 years (2023) and the next 5 years (2026) (percent)



	Large banks	Agriculture	Manufacturin g	Trade	Real estate, Building, construction	Finance & Insurance (excl. banks)	Transport & Services	Tourism	Non-bank private sector
2026	5.8	8.6	8.0	7.2	6.8	6.8	6.3	8.0	7.6
2023	5.7	7.8	7.2	6.4	5.7	6.3	6.0	7.5	6.9

9. OPTIMISM ON THE ECONOMIC PROSPECTS

The January 2022 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. The results showed sustained optimism by respondents across banks and nonbank private sector firms **(Charts 8 & 9).**

About 66 percent respondents pointed out the economic gains as a result of easing of COVID-19 restrictions both locally and globally, opening up of the economy, and continued vaccination exercise, expected to help manage the pandemic in the country and encourage return to work programmes and increased overall economic activity, as the main reason for their optimism. Other reasons included the focus on completion of infrastructure projects expected to contribute to economic growth, and expenditure on various continuing projects, including those under the *Big-4* agenda, and expectations of peaceful elections, cited by 52 and 28 percent respondents, respectively.

However, the main risk to this optimism as cited by 47 percent respondents was political risk.

Chart 8: Optimism by banks on economic prospects (percent of respondents)

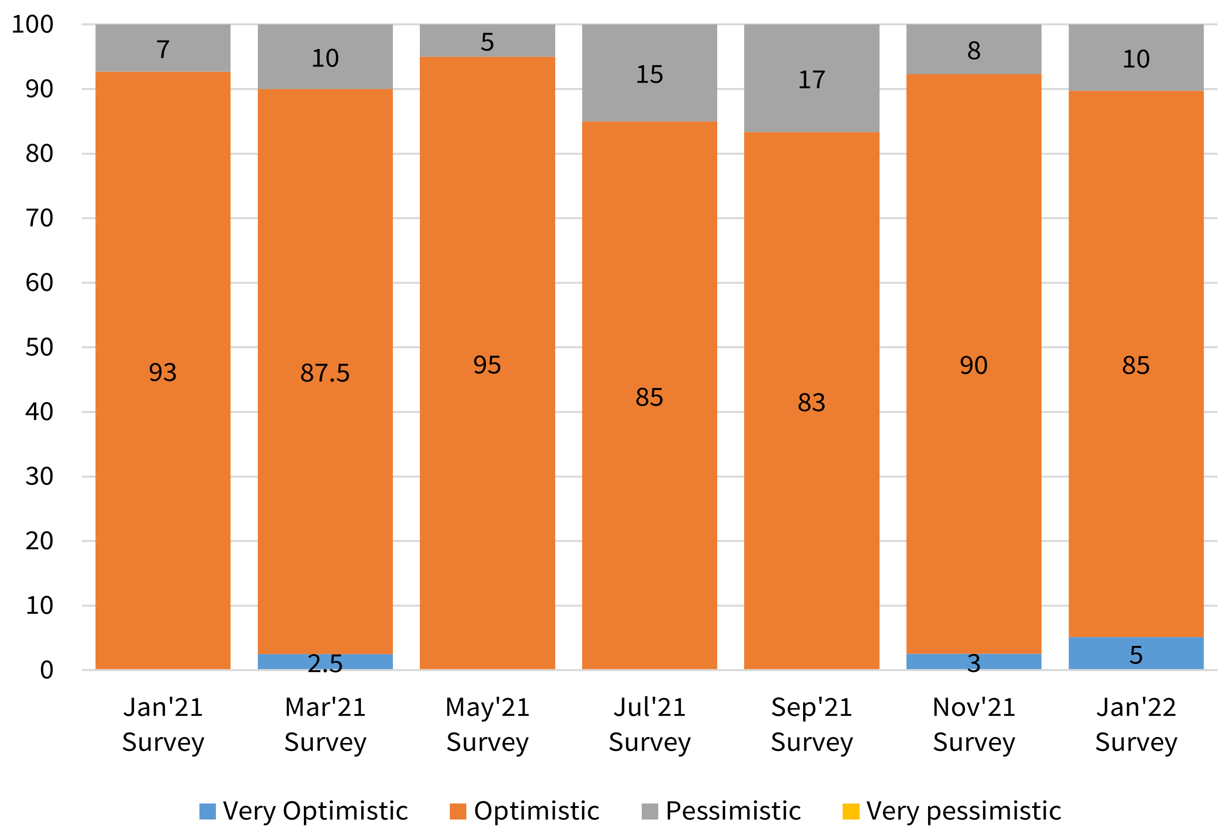
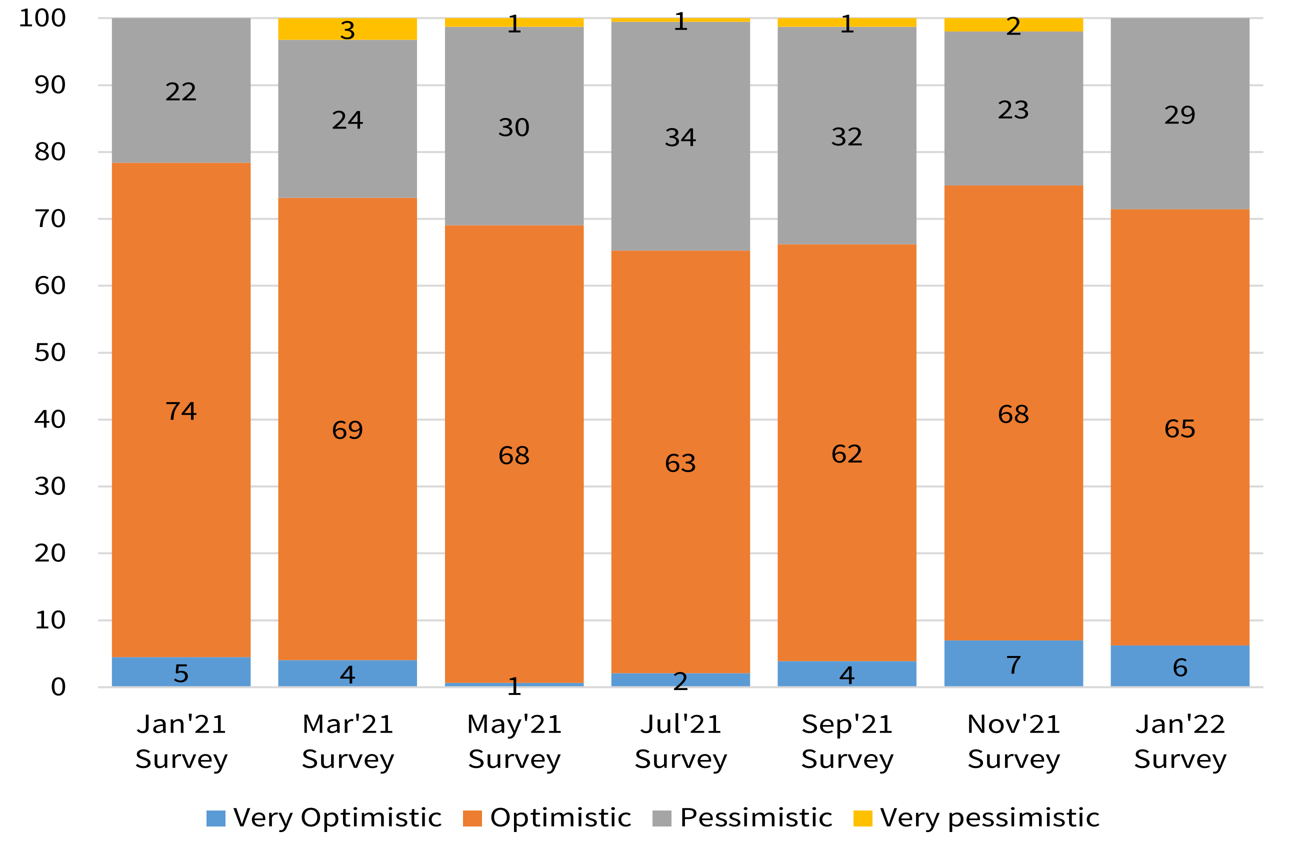


Chart 9: Optimism by non-bank private firms on economic prospects (percent of respondents)



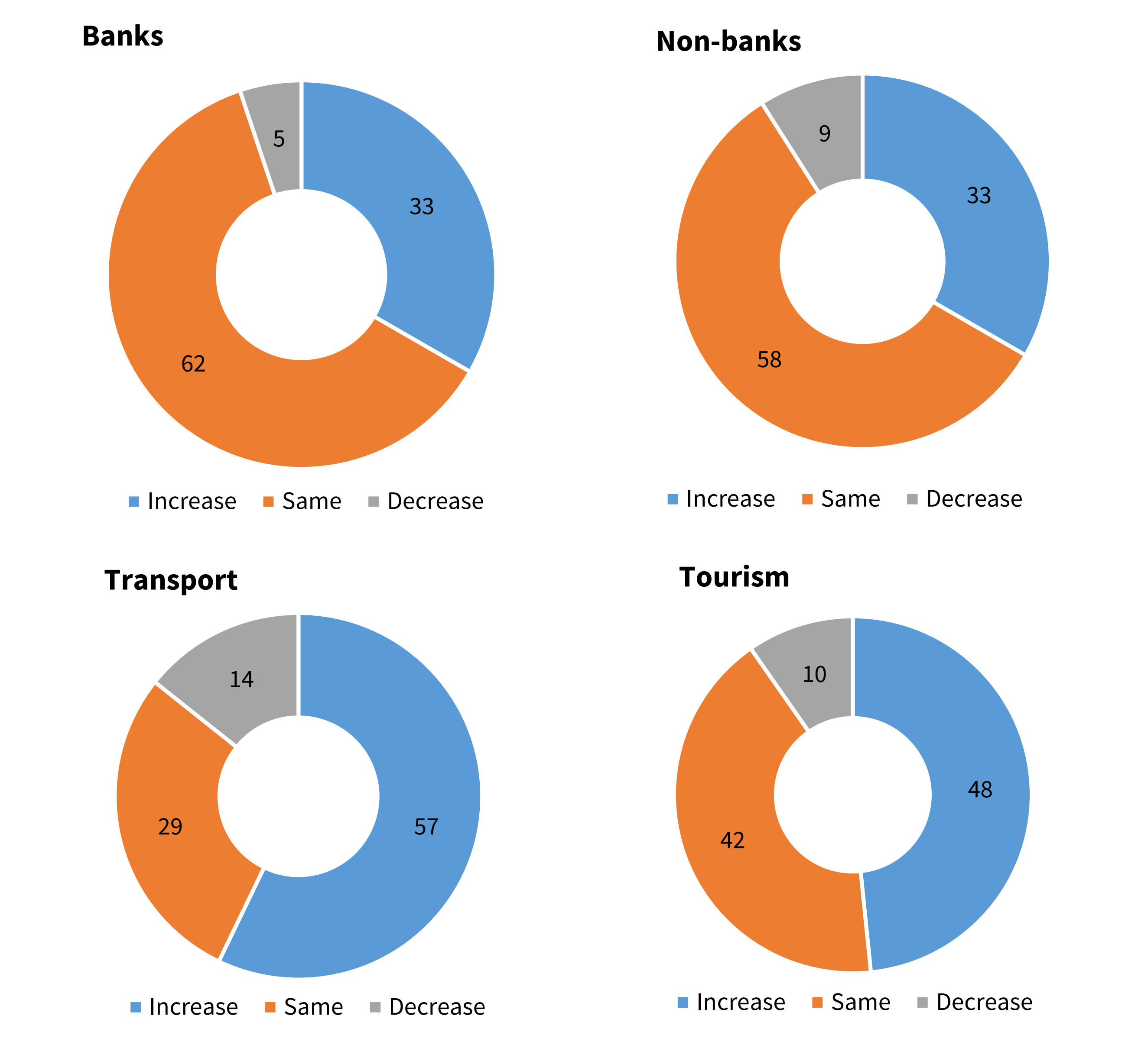
10. EXPECTED CHANGES IN EMPLOYMENT

The Survey asked respondents to indicate their expectations with regard to change in the number of employees in their respective institutions in 2022 relative to 2021. The results showed that a third (1/3) of respondents expected increased employment levels in 2022 relative to 2021 **(Chart 10).**

Approximately 33 percent of bank and non-bank respondents expected their companies to hire in 2022. Banks expected to hire to support expansions and new products, while transport sector respondents expected increased employment with increasing demand for services as businesses return to normal levels. Hotel respondents expected business to continue picking up slowly with the easing of restrictions and good uptake of vaccines, hence requiring more workers, while other non-bank respondents expected increased job opportunities with business expansions as a result of increasing demand.

Nevertheless, about 60 percent respondents expected their companies to retain 2021 employment levels in 2022 due to a focus on improving efficiency and optimization of the existing workforce.

Chart 10: Expectations on employment levels for 2022 relative to 2021 (percent of 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 January and February 2022.

Respondents across banks and nonbanks expressed mixed expectations with regard to the expected Shilling to US Dollar exchange rate.

Respondents expected the Shilling to be supported by increased dollar inflows from the diaspora, and increased horticultural inflows enhanced by seasonality factors like the Valentine's season.

However, pressure on the Shilling was expected to arise from increasing import bill with high crude oil prices, rising demand for imported goods, and a strong US dollar.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested that the approval of the proposed pricing policy and new products and services, and the effective use of credit reference bureaus would improve their business environment.

In addition, respondents suggested that the settlement of pending bills by both governments, improved digital security, appropriate risk- return pricing regimen for traditionally high-risk client segments, and creation of a guarantee fund for bad debts across the banking industry would make the environment better.

Furthermore, banks suggested that the creation of a separate and more effective legal system to resolve NPL cases lodged to judiciary, creation of effective policies and guidelines to manage NPLs, implementation of risk-based pricing framework to support SME segments excluded from accessing credit, and would go a long way in enhancing the business environment.

Non-bank private firms on the other hand suggested the introduction of growth–friendly reforms, which would entail revenue-related steps to improve tax compliance, widening the tax net by reviewing the list of tax-exempt and zero-rated items, formalizing the informal sector, and ensuring that public expenditures reach their intended targets.

In addition, respondents suggested deepening the domestic financial market to support private and public sector credit growth, improvement of ease of doing business at the central government and county level by using favourable taxation measures and rational licensing, that provide incentives to cushion some sectors and support to local manufacturing.

Furthermore, respondents suggested the need to access to better loans with lower interest rates and longer repayment periods, settlement of pending bills to suppliers would enhance cash flows and in turn facilitate expansions thus job creation.

BANKI KUU YA KENYA

Central Bank of Kenya

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

www.centralbank.go.ke | www.facebook.com/CentralBankKenya | @CbkKenya