Central Bank of Kenya

Market Perceptions Survey

September 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 regularly 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 September 2023 MPC Market Perceptions Survey was conducted in the first two weeks of the month. The Survey aimed at obtaining perceptions by respondents on selected economic indicators for the previous two months (July and August 2023), and expectations for the next two months (October and November 2023), the next one year (September 2023 – August 2024), the next two years (September 2023 – August 2025), and the next five years (September 2023 – August 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. 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 September 2023 Survey was 55 percent of the sampled institutions. The respondents comprised 36 commercial banks, 13 micro-finance banks, and 143 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 and microfinance bank, 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 September 2023 Market Perceptions Survey included:

1. Overall inflation is expected to moderate over the next two months.
2. Improved economic activity is expected in September and October.
3. Economic growth is expected to remain resilient in 2023, with expectations of improved agricultural production.

4. Banks expect continued growth in private sector credit in 2023 mainly supported by increased short-term borrowing.
5. Forward hotel bookings over the next four months stronger than they were in the same period in 2022.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to indicate their expectations of overall inflation rates for the next two months (October and November 2023), the next 12 months (September 2023 – August 2024), the next two years (September 2023 – August 2025), and the next five years (September 2023 – August 2028) **(Charts 1 & 2).** The respondents expect inflation to moderate in the next two months and in the next 12 months.

In the near term, 51 percent of the bank respondents expected the lower inflation to be supported by: continued decline in food prices resulting from the August/September harvest period which would partially offset the impact of high fuel prices and additional taxation, effects of the monetary policy tightening , effects of reduced global inflation and base effects. However, they cited high international oil prices and associated pressures on local pump prices and transport costs as risks to this outlook.

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

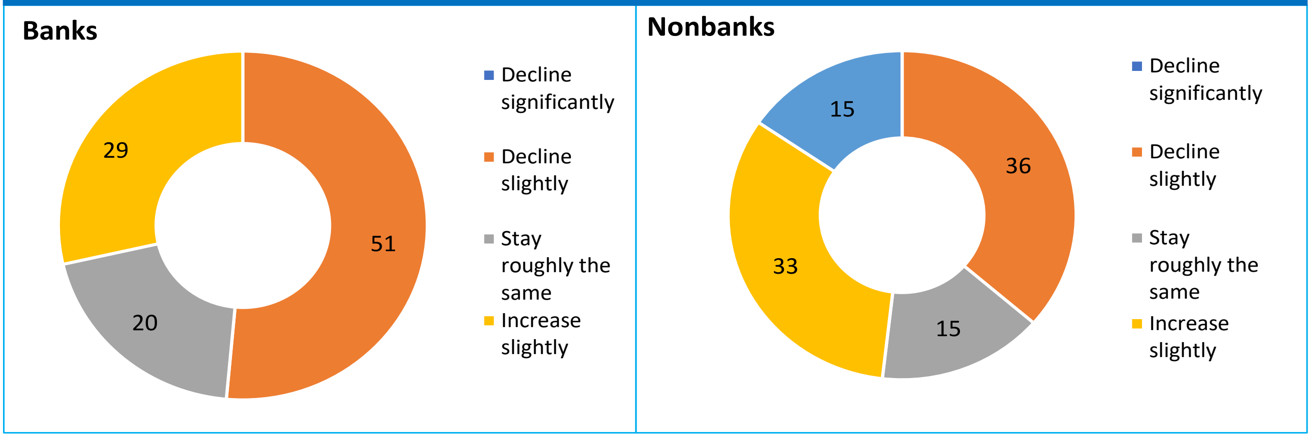
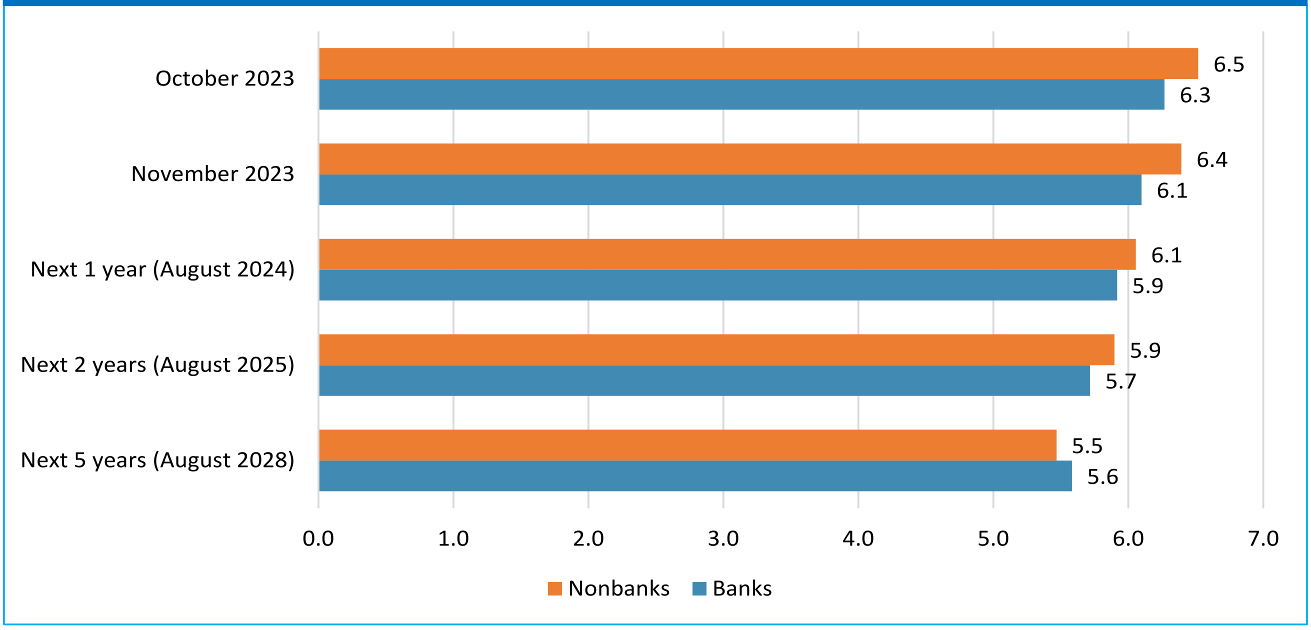


Chart 2: Inflation expectations for the medium term (percent)



Respondents expect inflation to decline in the medium term on account of expected stable market fundamentals, more responsive monetary policy and recovery of global economy as well as structural interventions by government whose economic transformation agenda has placed food security among the top priority sectors. In this case, the key focus in improving food supply includes increasing area under agriculture and subsidizing production.

6. ECONOMIC ACTIVITY

The September 2023 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in July and August 2023, and their expectations for September and October 2023. Respondents expect increased economic activity in September and October relative to July and August **(Charts 3 & 4).** Around 86 percent of the bank respondents and 67 percent of the non-bank respondents expect moderate to strong economic activity in September and October.

The respondents expect economic activity to be supported by agricultural production in the current harvest season and further rebound in agriculture on account of favourable weather conditions with the forecasted El- Nino rains, festive season spending, and expected decline in inflation in the third Quarter. Risks to the expected economic activity include, reduced public spending, tight credit conditions that could weaken private spending and consumption, reduced disposable income following the impact of the new taxes and reduced capacity for local investments.

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

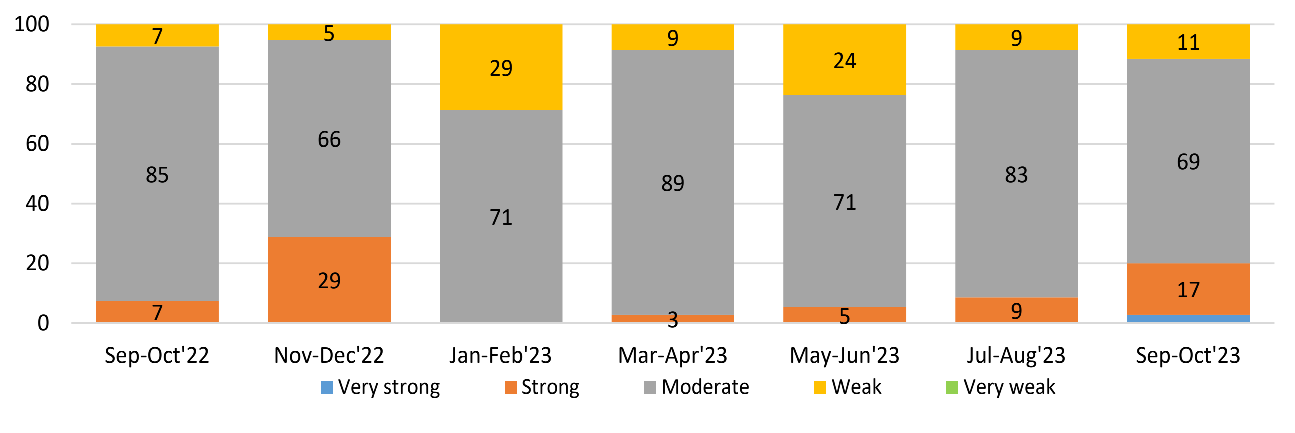
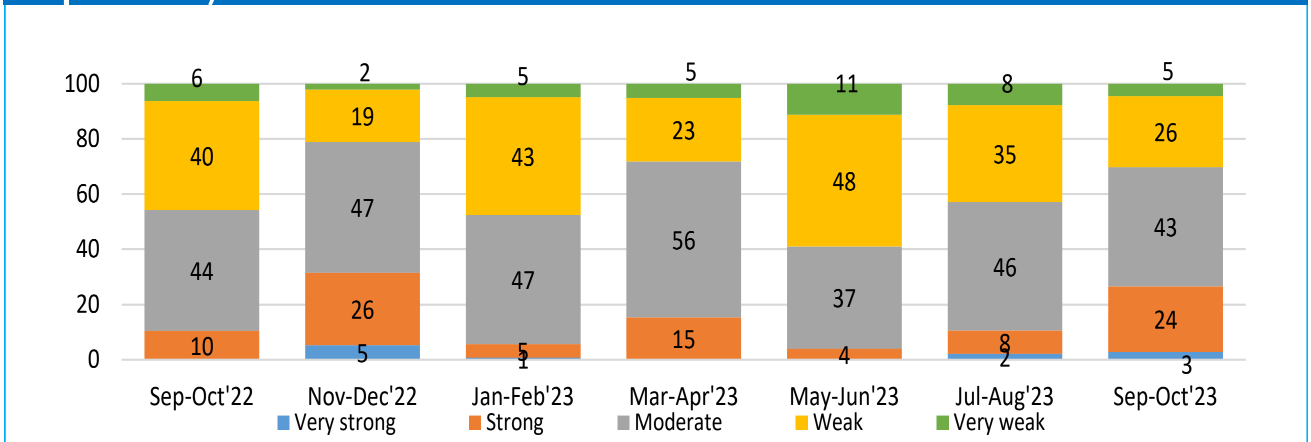


Chart 4: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

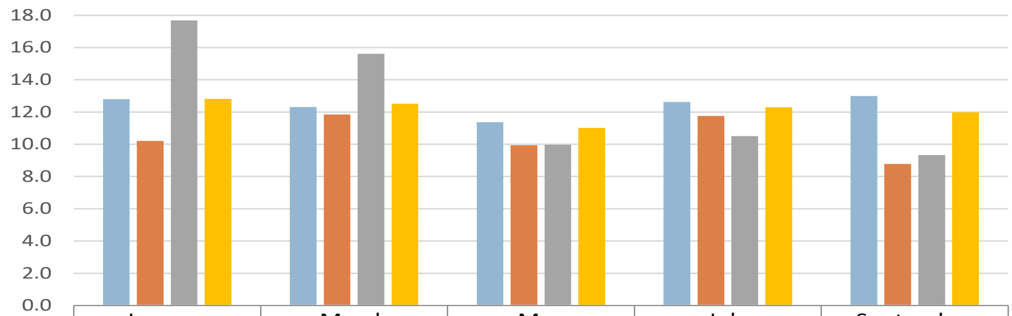
7.1 Growth in private sector credit by end December 2023

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. Respondents expected sustained increase in private sector credit growth in 2023 relative to 2022 **(Chart 5).**

Respondents expected private sector credit growth to be supported by improved growth prospects, high demand for credit due to increase in working capital requirements as most businesses try to stay afloat and cushion themselves following slowdown in collections and payments by customers, increase in prices of raw materials due to the impact of a weakening Shilling, growing demand for credit by MSMEs and expanded products targeting SMEs and retail segments.

The respondents, however indicated that the higher lending rates could make banks more cautious in lending to minimize the risk of default.

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



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

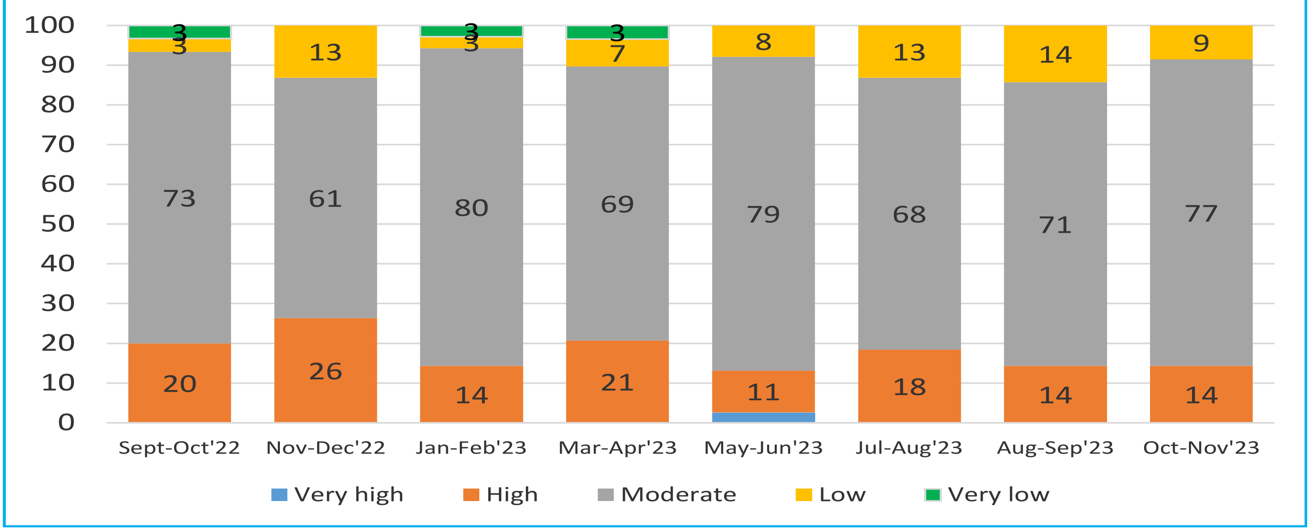
7.2. Expected demand for credit by banks

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the two months before the MPC meeting (i.e., July and August 2023), and their expectations for September and October 2023 **(Chart 6).**

About 91 percent of the bank respondents expect moderate to high demand for credit largely for working capital financing requirements, business expansion, catering for high cost of inputs and for businesses to cushion themselves due to slow down in collections/ payments by customers.

However, respondents expected demand for credit to be dampened by elevated interest rates.

Chart 6: 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 the next two years (2024), and in the next five years (2027).

The respondents expect economic growth to remain resilient in 2023, despite concerns about risks of high cost of living among others **(Table 1 & Chart 7).**

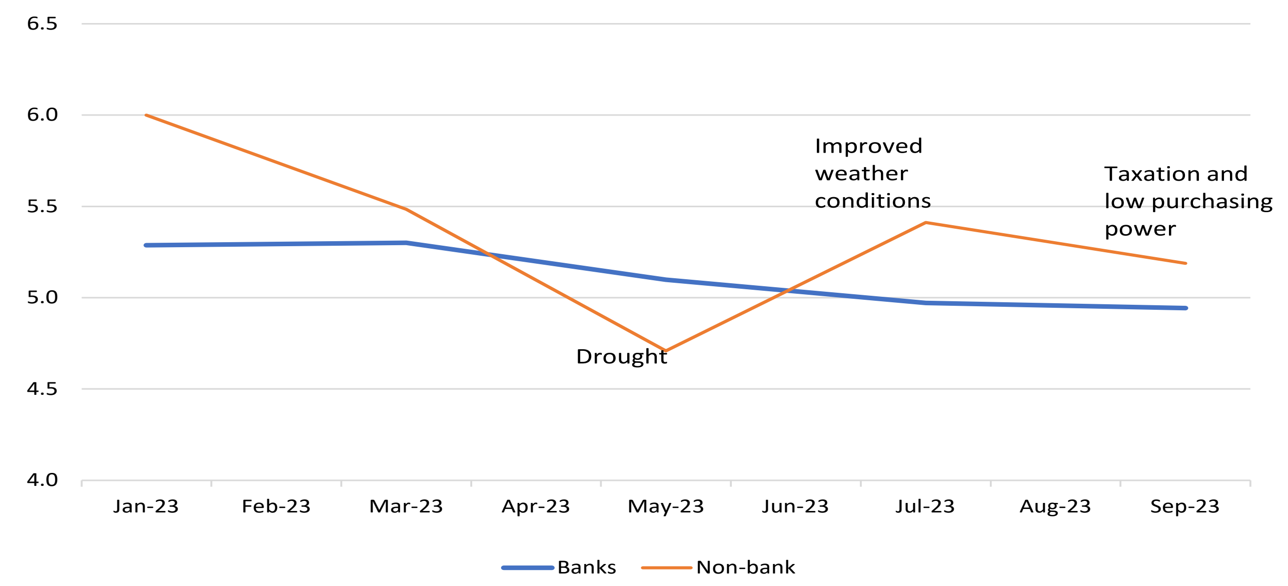
Respondents expect resilient economic growth in 2023 on account of a rebound in agricultural production on the back of favourable weather, resilience in services sector and tamed inflation.

However, risks to economic growth outlook include: fiscal consolidation which is likely to weigh down government spending particularly development spending, high cost of living, increased costs of production, high interest rates, high taxation, and the weaker currency.

Table 1: Expectations on economic growth for 2023 (percent)

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

Chart 7: Factors supporting expectations on growth



9. OPTIMISM ON THE ECONOMIC PROSPECTS

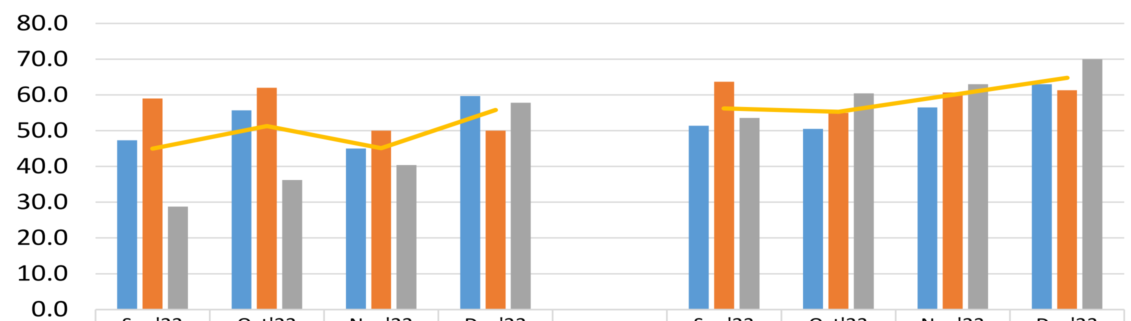
9.1. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for September, October, November, and December. Results showed increased average forward bookings **(Chart 8).**

The survey revealed increased average forward bookings supported by increase in number of foreign clients, boosted by the Africa Climate Summit in September, and the upcoming holiday season.

However, hotel respondents reported reduced numbers of local guests attributed partly to the last-minute booking culture, and minimum corporate bookings due to budget cuts.

Chart 8: Hotel forward bookings (September – December 2023)



	Sep'22	Oct'22	Nov'22	Dec'22		Sep'23	Oct'23	Nov'23	Dec'23
Mombasa	47.3	55.7	45.0	59.7		51.4	50.5	56.5	63.0
Nairobi	59.0	62.0	50.0	50.0		63.7	55.0	60.7	61.3
rest	28.8	36.2	40.4	57.8		53.6	60.4	63.0	70.0
average	45.0	51.3	45.1	55.8		56.2	55.3	60.1	64.8

Mombasa Nairobi rest average

9.2. Optimism on economic prospects in the next 12 months

The Survey requested bank and nonbank private sector firms to indicate their optimism regarding the country's economic prospects in the next 12 months. The survey revealed improved optimism about Kenya's economic prospects in the next 12 months **(Charts 9 & 10).**

Reasons given by respondents for this optimism included recovery in the agricultural sector supported by positive outlook on the short rains, easing inflation rates, expected increased activities as the government puts in place measures to support the planned policy interventions and continued private sector resilience.

Risks to this optimism included the high cost of living, increased costs of production, expected El Nino flooding that could potentially dent growth in agriculture and effect of increased taxation.

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

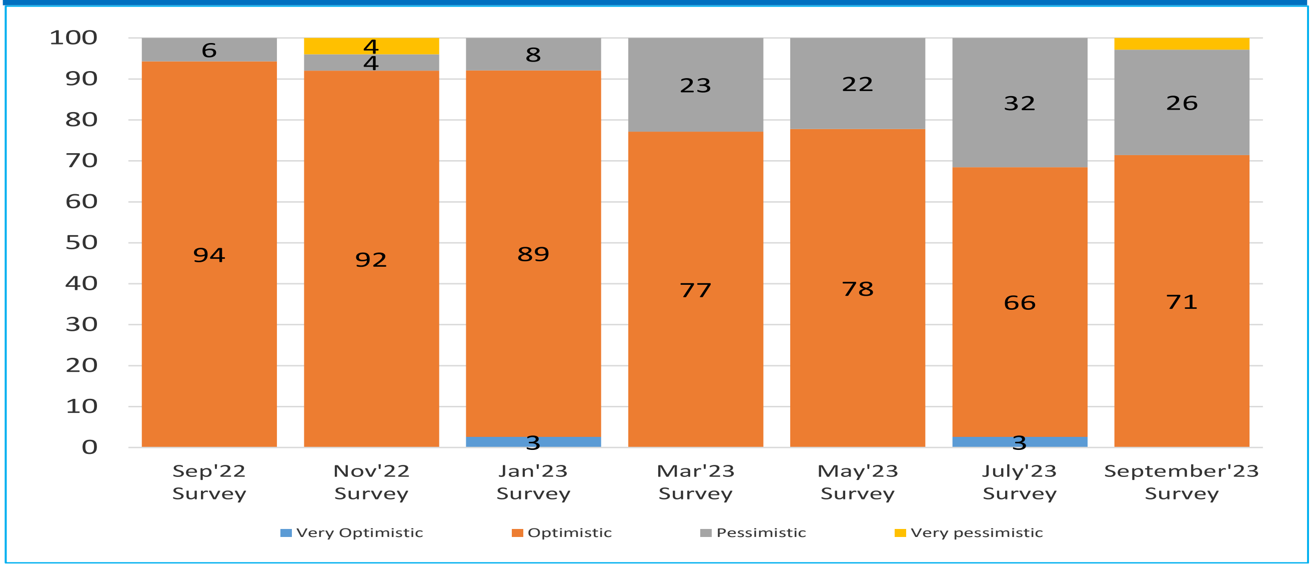
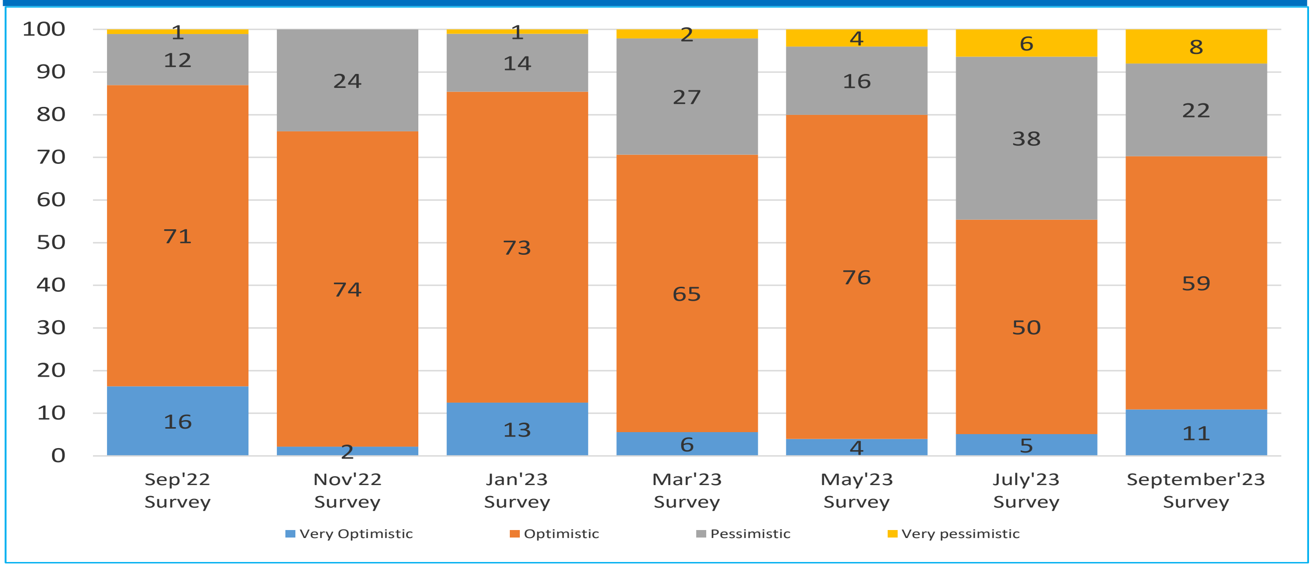


Chart 10: Optimism in growth prospects by non-bank private sector (% respondents)



10. 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 September and October 2023.

Respondents expected support for the Shilling to come from healthy diaspora remittances, collaboration between the CBK, banks and brokers in managing flows and pricing, drawdowns from the IMF and the World Bank, prospects of syndicated external loans, and rising interest rates.

However, respondents expected some pressure on the shilling from sustained demand from imports, slow recovery in capital inflows as foreign interest rates remain high, enhanced dollar demand, and persistent US dollar strength.

11. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested a number of interventions to support credit growth and business environment: commitment by the national and county governments to settle their pending bills to spur demand for credit and lower NPLs, and the increased efforts in the fight against corruption.

In addition, more public education to raise awareness on cyber frauds which have been on the rise, efficient and speedy turnaround time for pending court cases on NPLs and creation of enablers for commercial banks to provide credit to SME's could further improve business environment.

Proposals from non-bank private firms on the other hand were broad based accross sectors and included: provision of low interest credit facilities by banks, lower money transfer charges, incentives to industries such as tourism, and favourable policies and incentives for both foreign and local investors especially in the manufacturing and tourism sectors.

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