Central Bank of Kenya

Market Perceptions Survey

March 2024

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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 March 2024 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 (January, February, and March 2024), expectations for the next three months (April, May, and June 2024), the next one year (April 2024 – March 2025), the next two years (April 2024 – March 2026), and the next five years (April 2024 – March 2029).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 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 March 2024 Survey was 73 percent of the sampled institutions. The respondents comprised 34 commercial banks, 8 micro-finance banks, and 217 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 March 2024 Market Perceptions Survey included:

1. Respondents expect overall inflation to decline over the next three months, and to be anchored around the 5 percent target in the medium term.
2. Respondents expect continued increase in economic activity in April, May and June supported by agricultural activity and a stable macroeconomic environment.
3. Respondents expect a stronger economic growth in 2024 compared with 2023, largely anchored on increased agricultural production.

4. The survey shows an improvement in bank and non-bank private firms employment expectations for 2024 relative to 2023.
5. Bank respondents expect a moderate private sector credit growth in 2024 largely due to high lending rates. However, better economic growth in 2024 and increased demand for working capital are expected to support private sector credit growth.
6. The survey revealed stronger optimism by respondents about Kenya's economic prospects in the next 12 months.
7. The survey revealed improved forward hotel bookings for the period March – June 2024

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next three months (March, April, and May 2024), the next 12 months (March 2024 – February 2025), the next 2 years (March 2024 – February 2026), and the next 5 years (March 2024 – February 2029). Respondents expected a decline in inflation in March to May 2024, largely driven by lower food and fuel prices, and a stronger Shilling **(Table 1).**

Respondents expected inflation to be moderated by lower food inflation following recent harvests and favourable weather outlook, reduction in energy prices coupled with the benefit of base effect and reduced cost of transportation, and lower imported inflation owing to a stronger KES relative to the USD, cited by 87 percent, 65 percent and 61 percent respondents, respectively.

However, respondents cited high electricity tariffs, despite the recent decrease, recent increase in global oil prices and potential headwinds from rising logistic costs due to geopolitical tensions as risks to their expectations.

Table 1: Inflation expectations for March to May 2024 (percent)

Survey month	Inflation expectations			Actual inflation	Deviations	
		Banks	Non-banks		Banks	Nonbanks
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	6.60	0.56	0.52
Jan-24	Jan-24	6.67	6.83	6.85	-0.18	-0.02
	Feb-24	6.63	6.77	6.31	0.32	0.46
Mar-24	Mar-24	6.10	6.07	5.7	0.40	0.37
	Apr-24	6.05	5.95			
	May-24	5.84	5.80			

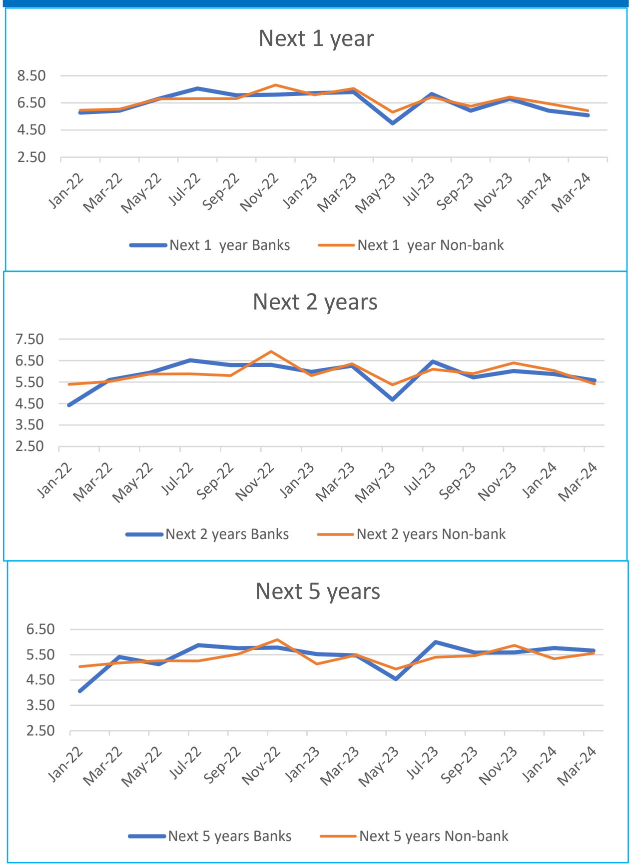
Over the medium term, respondents expected inflation to remain anchored close to the 5 percent target on account of expected stability in food prices and the Kenya Shilling **(Chart 1).**

Food stability, resulting from expected improvement in food production due to the favourable weather outlook, and government food security agenda, including inputs and fertilizer subsidies, and increase in the area under irrigation, was cited by 79 percent respondents as the reason for the expected low and stable inflation in the medium term.

Additionally, 79 percent respondents expected a stable exchange rate and consequently moderate imported inflation and muted exchange rate pass through effects to contribute to lower food prices in the medium term.

However, 38 percent and 25 percent respondents, respectively, indicated that vulnerability to commodity price shocks, particularly global oil prices, and residual effects of increased VAT on fuel products and increased taxes on consumers which burden households remained.

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



6. ECONOMIC ACTIVITY

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

Respondents expected moderate to strong activity in the next three months supported by strong activity within the agricultural sector due to favourable weather and the government stimulus initiatives to the sector, as cited by 68 percent respondents.

In addition, 68 percent respondents expected the easing inflation and a stronger Shilling to lead to lower cost of living and therefore increase capacity for local investments and decreased cost of production, and for a lower import bill and lead to improved USD supply hence supporting capital investments.

However, risks to economic activity cited by respondents included the high cost of borrowing due to high lending rates, resulting in higher loan repayment costs, further constraining disposable incomes for consumption and investments by households and MSMEs while occasioning a rise in non-performing loans (NPLs), cited by 45 percent respondents, and, high taxation and over concentration of tax burden on a small tax base contracting household consumption demand, private sector investment and hence slowing business activities, cited by 40 percent respondents.

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

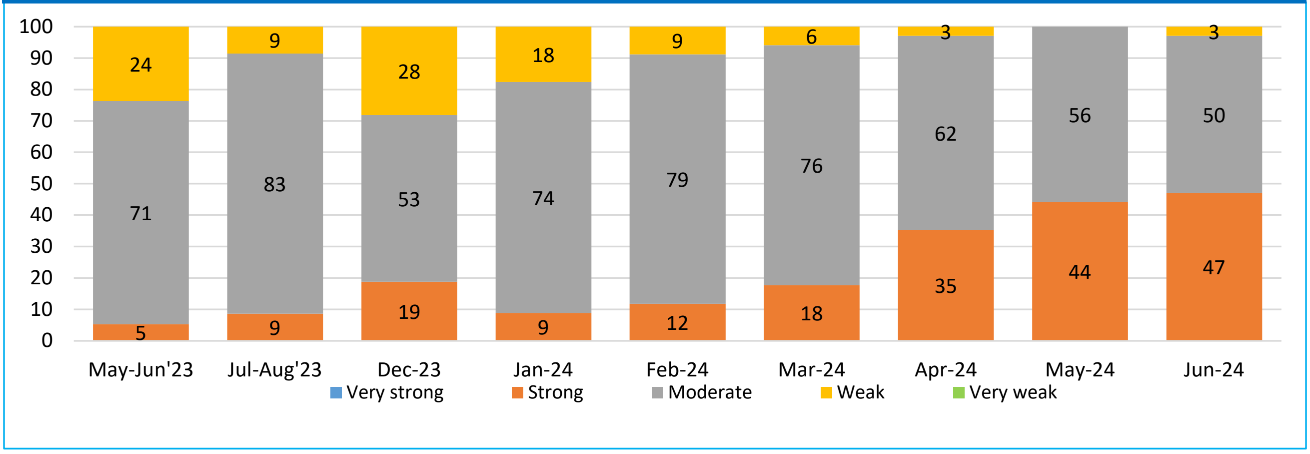
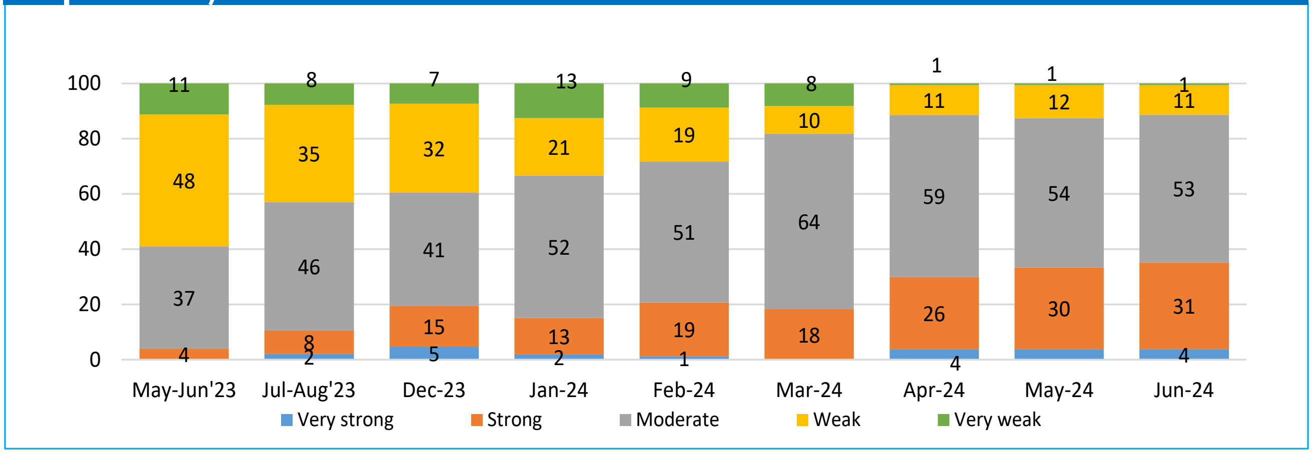


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit at end December 2024

The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector by end December 2024 compared with end December 2023. Respondents indicated expectations of lower Private sector credit growth in 2024 compared with 2023 largely due to high lending rates **(Charts 4 & 5).**

About 62 percent respondents expected private sector credit growth to be largely tempered by high lending rates and tight credit underwriting, which were dampening demand and uptake of new facilities, as the price of loans increased at a time when banks were implementing risk-based pricing and trying to be very cautious to minimize NPLs and the increasing credit risk (62 percent respondents).

Nevertheless, 70 percent respondents expected support to private sector credit growth from a better economic performance in 2024 relative to 2023 due to favourable weather conditions, favorable foreign exchange environment, positive sentiments in economy and lower inflation, which are likely to boost demand for working capital and term funding. They also expect credit to be supported by increased demand from short-term borrowing and requirements for working capital and to finance projects due to cash flow challenges and financial constraints for businesses arising from the high interest environment, delays in the government disbursement of funds to its suppliers and increased demand for working capital.

Chart 4: Expectations on private sector credit growth 2024 (percent)

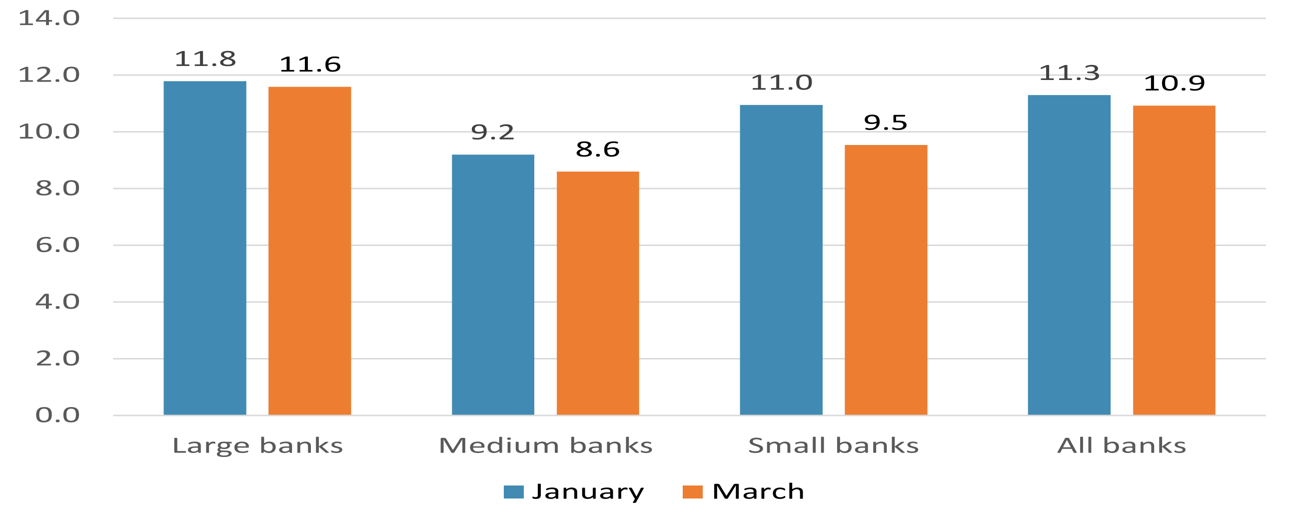
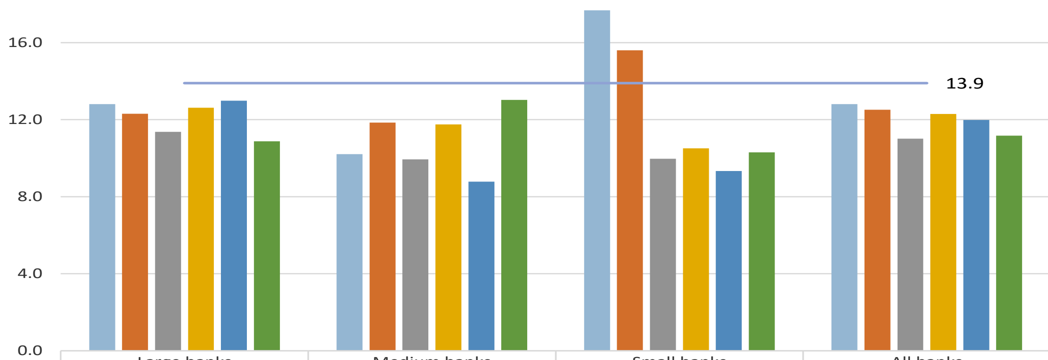


Chart 5: Expectations on private sector credit growth in 2023 (percent)



	Large banks	Medium banks	Small banks	All banks
January	12.8	10.2	17.7	12.8
March	12.3	11.8	15.6	12.5
May	11.4	9.9	10.0	11.0
July	12.6	11.8	10.5	12.3
September	13.0	8.8	9.3	12.0
November	10.9	13.0	10.3	11.2
Actual growth Dec 2023	13.9	13.9	13.9	13.9

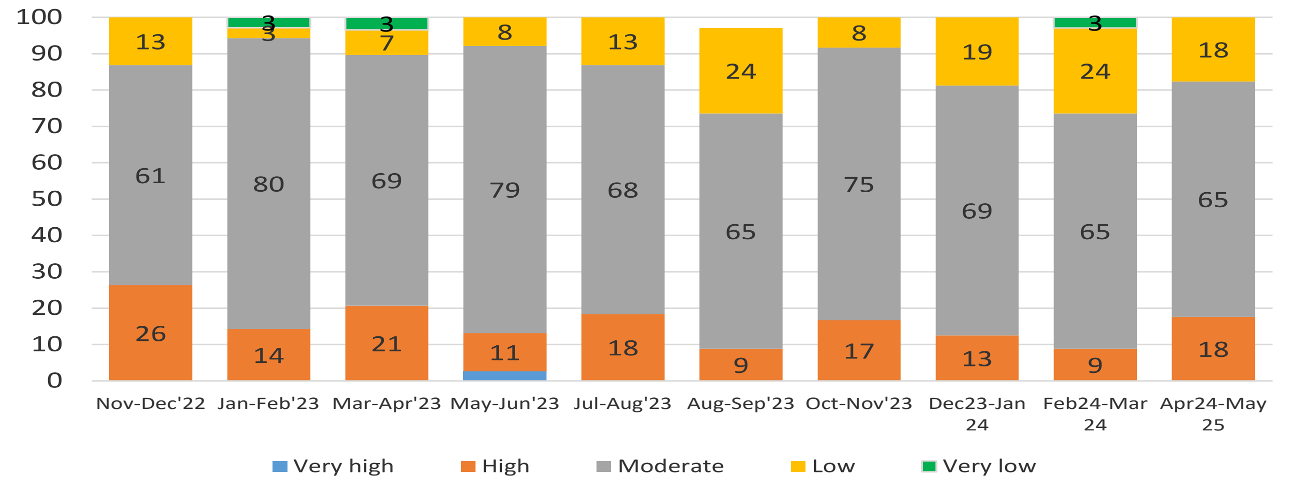
7.2. Expected demand for credit by banks

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e., February and March 2024), and their expectations for April and May 2024. Respondents expected moderate to high demand for credit in April and May supported largely by the need for working capital **(Chart 6).**

Bank respondents expected demand for credit driven by the need to finance working capital, for capital financing, and to cater for the high cost of inputs, as cited by 75 percent respondents.

However, 82 percent respondents expected the high cost of credit due to high interest rates and prospects of increased interest rates, relatively high inflation environment, and the high cost of doing business in the country to dampen credit appetite in the next two months.

Chart 6: Expectations on Demand for credit from banks' perspective (percent of respondents)



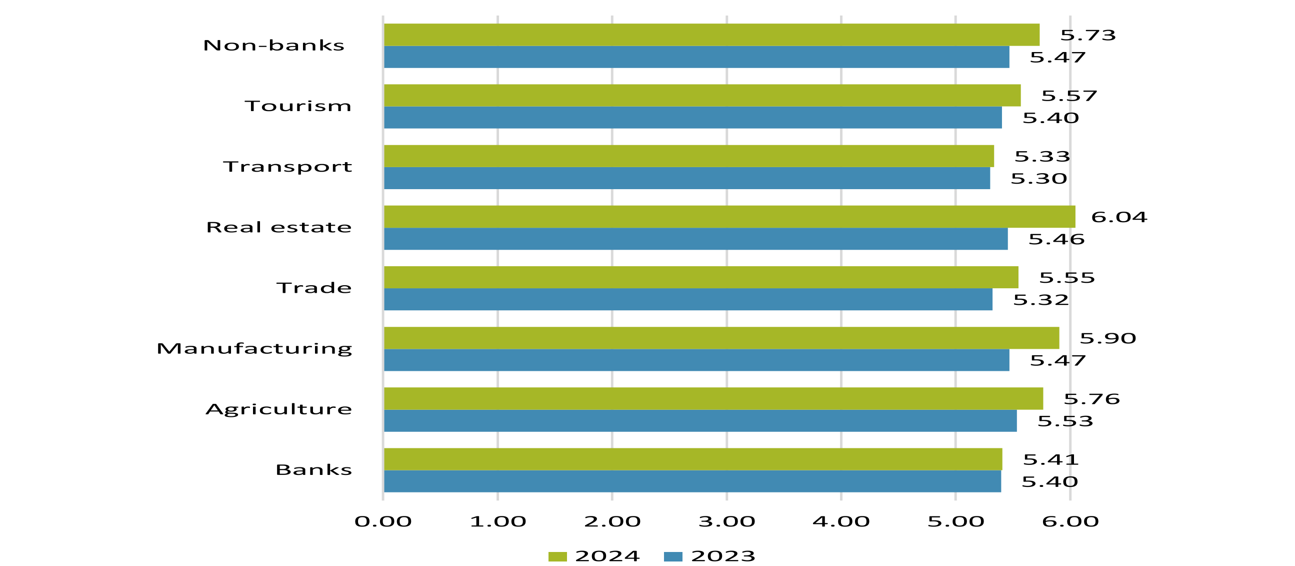
8. EXPECTED ECONOMIC GROWTH

The Survey requested participants to indicate their estimated economic growth rates for the country in 2023, in 2024 and in the next 5 years (2028). Respondents expected stronger growth in 2024 compared to 2023 largely supported by a rebound in agriculture **(Chart 7).**

Respondents expected 2023 and 2024 economic growth to be driven by enhanced agricultural production supported by the more than average rainfall across the country and government interventions in the sector, a resilient private sector led diversified economy supported by healthy albeit diminishing consumer activities due to slowing incomes, and tourism sector recovery with increasing international travel, cited by 71 percent, 38 percent and 21 percent respondents, respectively.

However, risks to economic growth cited by respondents included high taxation which would contract household consumption demand, private sector investment and employment, cited by 83 percent respondents, and the high cost of borrowing due to high interest rates which would constrain disposable incomes for consumption and investments by households and MSMEs, cited by 75 percent respondents, thereby dampening economic growth.

Chart 7: Expectations on economic growth for 2023 and 2024 (percent)



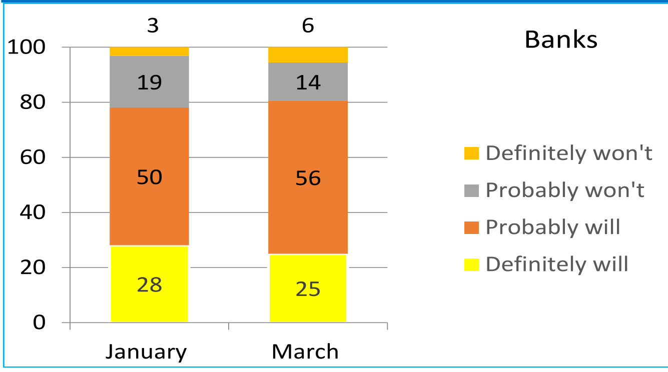
9. EMPLOYMENT EXPECTATIONS

Respondents were asked about their expectations on the number of employees they expected to retain in 2024 compared with 2023. The survey showed a slight improvement in bank and non-bank private firms hiring expectations for 2024 (percent respondents **(Charts 8 & 9)**.

Banks expected to hire in 2024 largely to grow business and expand, to attract new talent, diversify skills and to replace exiting staff.

Non-bank respondents expressed the need to cut costs and improve efficiency as reasons for not hiring in 2024. Some, however, expressed concern about industry decline as a result of challenging business environment.

Chart 8: Employment expectations for 2024 compared with 2023 (percent)



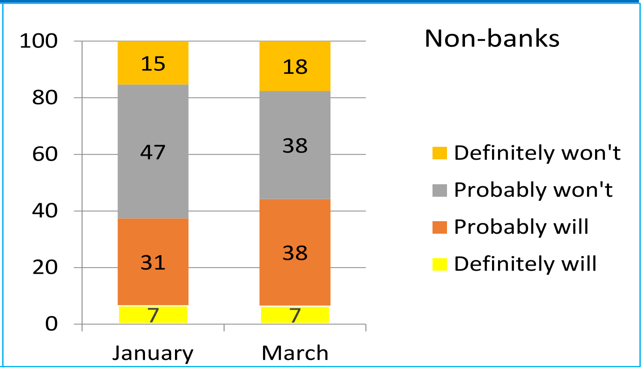
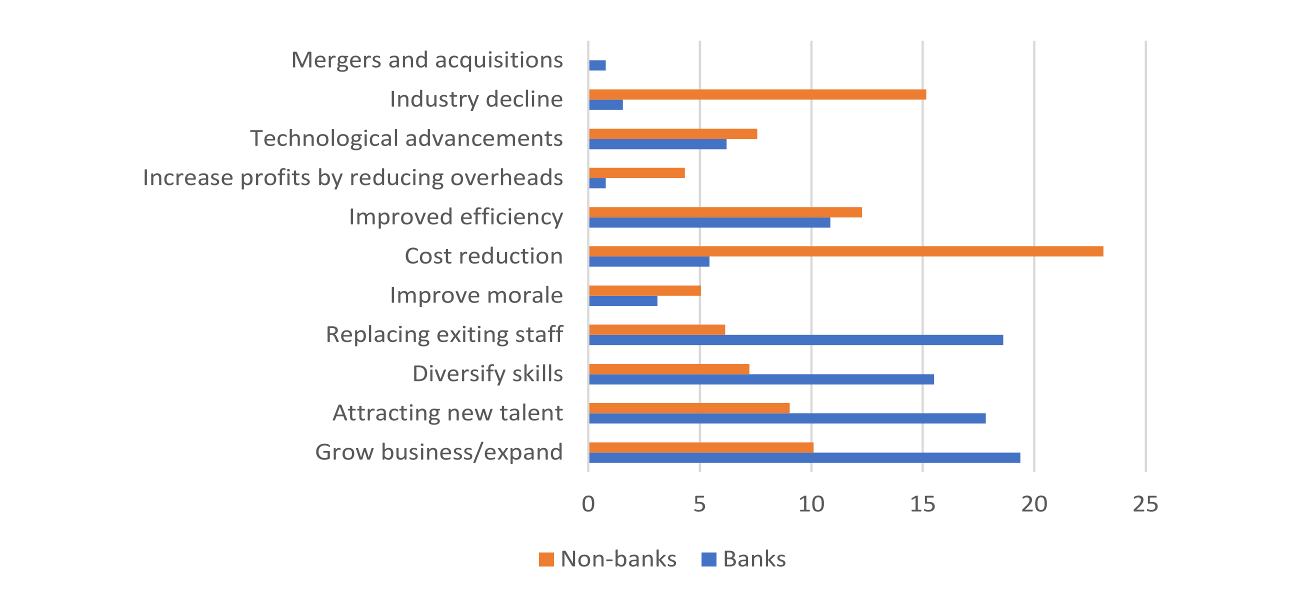


Chart 9: Reasons for employment expectations for 2024 (percent respondent)



10. OPTIMISM ON THE ECONOMIC PROSPECTS

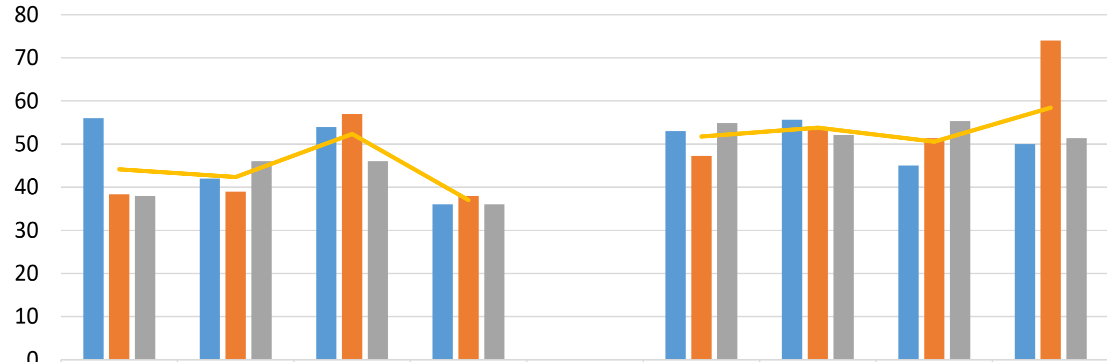
10.1. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for the period March to June 2024. The survey revealed improved average forward hotel bookings during the period, which is off-peak season, compared with 2023 **(Chart 10).**

Respondents indicated that the industry was picking up with increasing foreign guests with increasing international travel.

However, respondents cited low local business arising from high cost of living and low purchasing power, austerity measures by government affecting conferencing/ meetings business, unfavourable park rates, increased flight charges, foreign bookings being done close to the arrival dates, most locals not booking prior to arrival, and the mushrooming of Airbnb's, which for a long time were not being regulated as reasons for the low forward bookings.

Chart 10: Hotel forward bookings (March 2024 – June 2024)



	Mar'23	Apr'23	May'23	Jun'23		Mar'24	Apr'24	May'24	Jun'24
Mombasa	56	42	54	36		53	56	45	50
Nairobi	38	39	57	38		47	54	51	74
rest	38	46	46	36		55	52	55	51
average	44	42	52	37		52	54	51	58

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 how optimistic or pessimistic they were regarding the country's economic prospects in the next 12 months. Overall, respondents expressed stronger optimism about Kenya's economic prospects for the next 12 months with non-bank firms expressing more optimism about Kenya's economic prospects compared to the last survey **(Charts 11 & 12).**

78 percent respondents cited expected rebound in agriculture due to favourable weather forecast and agriculture related government interventions, which are expected to lower food inflation and hence allow for increased disposable incomes. In addition, 61 percent respondents were optimistic about the expected economic benefits of a stronger Shilling and growing capital inflows in the economy, including boosting investor confidence.

Nevertheless, 69 percent respondents expressed concerns about the current tax reforms, citing effects such as destabilized businesses, lower spending, diminishing domestic demand as public spending slowed down and lower disposable incomes.

Chart 11: Optimism in growth prospects by banks (% respondents)

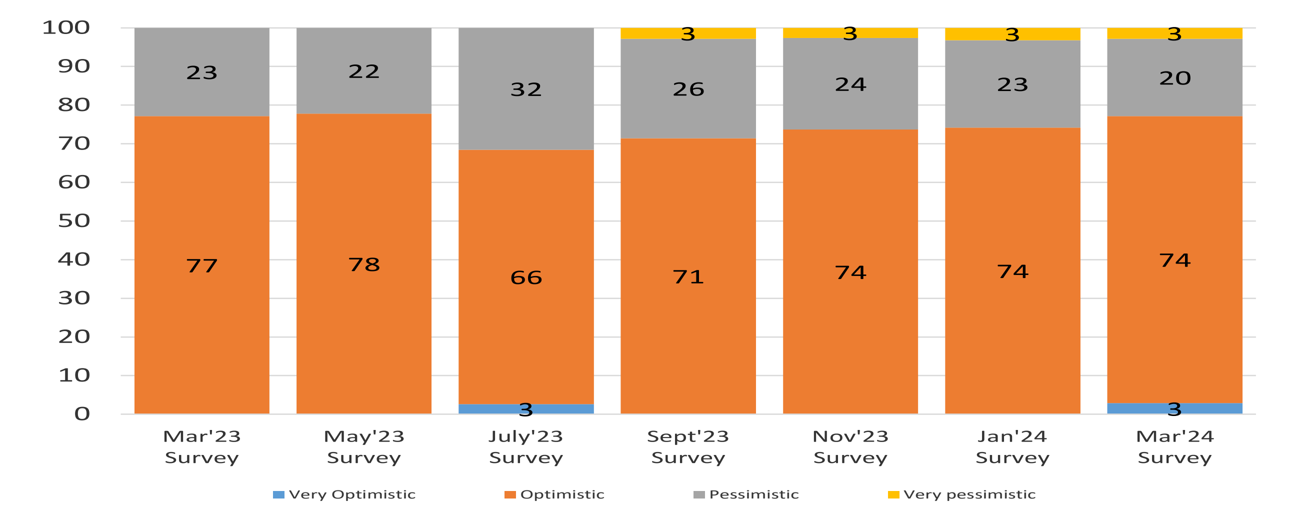
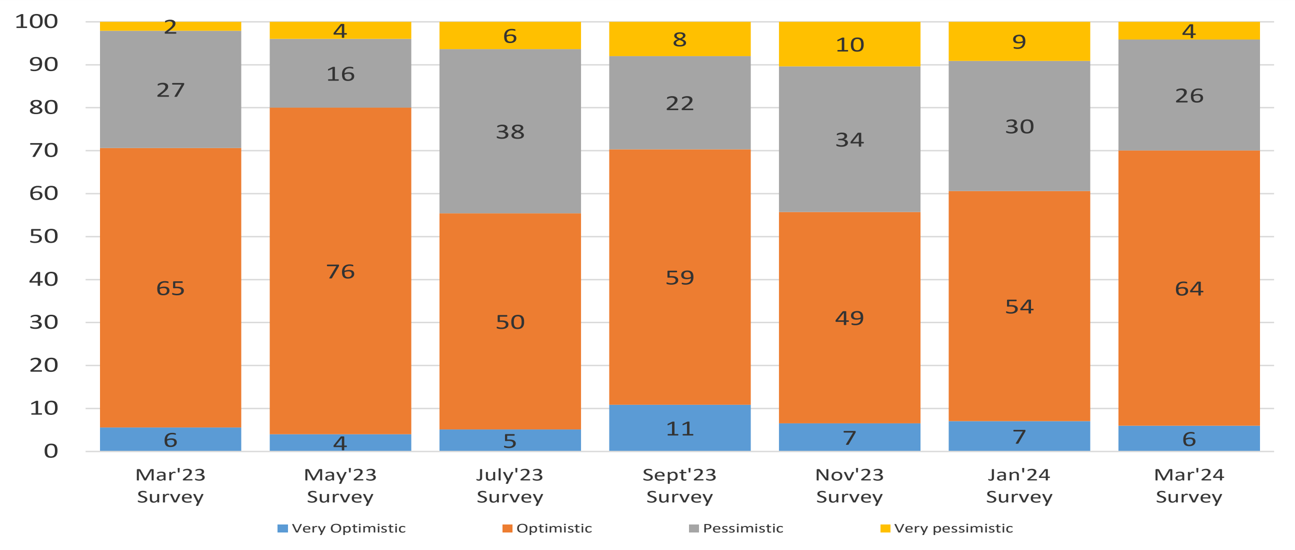


Chart 12 Optimism in growth prospects by non-bank private sector (% respondents)



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 April and May 2024.

Respondents expected the Shilling to strengthen supported by improved USD supply in the market, positive investor sentiments following the successful Eurobond issuance, diminished short term debt sustainability concerns, reduced pressure from the import bill, strong diaspora remittances, attractive yields which could continue to draw portfolio flow into the country, and flows from development partners.

However, respondents expect that resumption of the normal importation cycle and increased demand for dividend repatriation could keep the exchange rate slightly under pressure.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Respondents suggested that continued efforts to maintain inflation at target levels and stabilize the Shilling would support decision making on investment plans.

In addition, respondents suggested that the government should roll out action plans to improve the country's anti money laundering reputation, address non-performing loans resolution by resolving salary delays and county disbursements and ensuring stable regulatory frameworks to provide a predictable business environment.

Respondents also indicated that efforts to enhance predictability of the tax landscape and to widen the tax bracket, and de-risking mechanisms for MSMEs to boost credit access would improve the business environment.

Respondents indicated that the government should consider paying manufacturers their VAT refunds as the accumulation was increasing operating costs of manufacturers who in turn were passing the cost to the consumer, in addition to shifting government spending towards development expenditure as this would have a greater multiplier effect to the overall economy.

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