



Monetary Policy Committee Market Perceptions Survey

April 2020



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BACKGROUND TO THE MARKET PERCEPTIONS SURVEYS

The Central Bank of Kenya (CBK) undertakes a Market Perceptions Survey every two months, prior to every Monetary Policy Committee (MPC) meeting, to obtain perceptions of banks and non-bank private sector firms on selected economic indicators. In the event of any adverse shock in the economy, the MPC carries out special surveys on a monthly basis to obtain perceptions and expectations from specific sectors to shed more light into the crisis.

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, focusing 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 and Meru, is representative of sectors that account for about 70 percent of real 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 sensitization 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.

1. INTRODUCTION

The MPC Secretariat carried out the April 2020 MPC Market Perceptions Survey in the first three weeks of the month. The Survey was conducted against the backdrop of the Coronavirus pandemic (COVID-19), a significant health and economic shock across the world. The Survey sought perceptions on the economic conditions prevailing in March 2020, and market expectations on economic conditions for April and May 2020 and for the next 12 months. The Survey sought from hotel respondents the extent of cancellations of bookings, closures, actual and expected revenue losses, actual and expected lay-offs and furloughs arising from the coronavirus pandemic, and the resultant optimism in the country's economic prospects.

From commercial bank respondents, the Survey sought responses to the MPC's previous decisions in as far as lending rates, private sector credit growth and credit demand are concerned, in addition to the levels of optimism in the country's economic prospects.

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

2. SURVEY METHODOLOGY

The Survey was administered to the Chief Executives and other senior officers of 38 operating commercial banks, 1 operating mortgage finance institution and 65 hotels through questionnaires sent by email and hard copy. The overall response rate to the April 2020 Survey was 85 percent of the sampled institutions. The respondents comprised all banks and 49 hotels. 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.

3. HIGHLIGHTS OF THE SURVEY

The Key takeaways in the April 2020 Market Perceptions Survey included:

- Much lower hotel occupancy in March 2020;
- Over 90 percent of hotels closed for the next 3 months;
- Significant projected decline in hotel revenues;
- Significant hotel employee lay-offs and furloughs;
- Expected decline in lending rates;
- Expectations of slower private sector credit growth; and
- Decline in optimism on economic prospects

4. IMPACT OF COVID-19 ON HOTELS

4.1 Actual Hotel Bookings for March 2020

Hotel bookings in March 2020 were much lower than in a similar period in the previous year (**Chart 1**).

While hotels began receiving cancellations even before the first COVID-19 case in Kenya, most hotels closed from the last week of March when it became apparent that business could not be sustained due to the massive cancellations and postponed bookings due to the COVID-19 pandemic.

4.2 Forward hotel bookings:

At the time of the Survey, about 95 percent of hotels had experienced over 90 percent cancellation of bookings for April, May and June due to the COVID-19 pandemic (**Chart 2**).

Hotel forward bookings for April to July 2020 were virtually non-existent (**Chart 3**). Most hotels expected to remain closed for 3-6 months.

Chart 1: Actual hotel bookings – March 2019 & March 2020 (%)

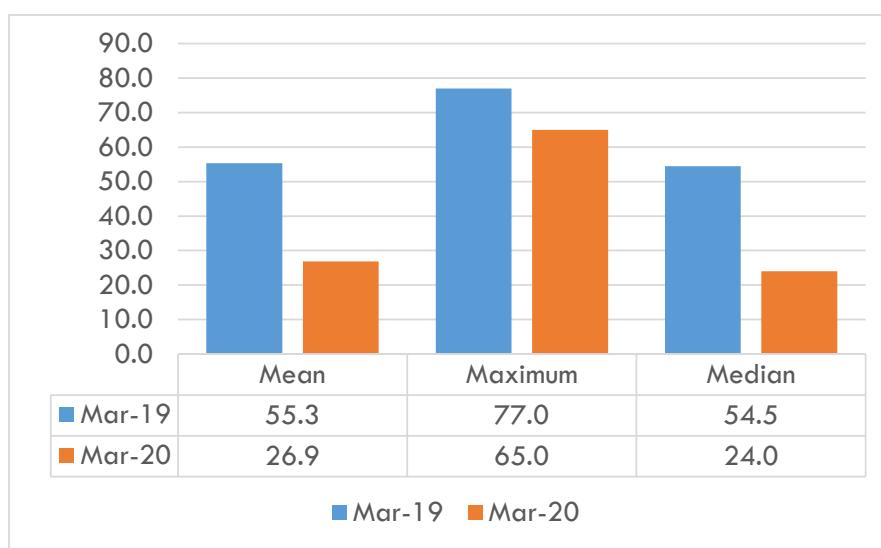


Chart 2: Estimated hotel cancellations - April 2020

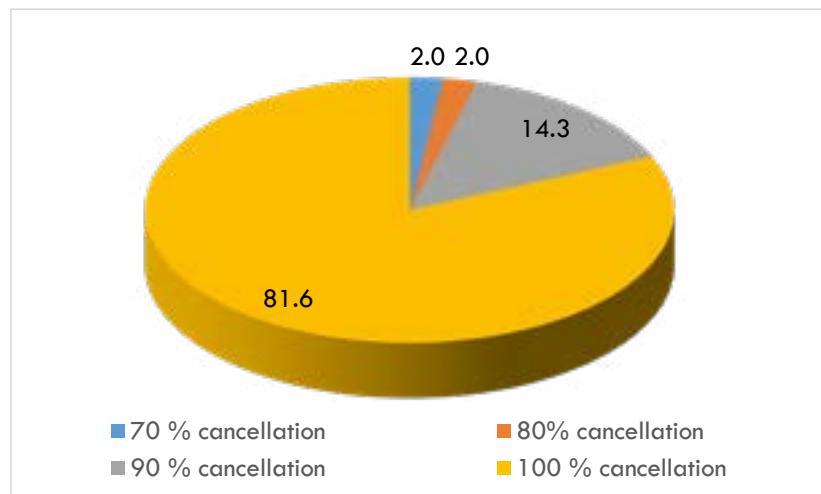
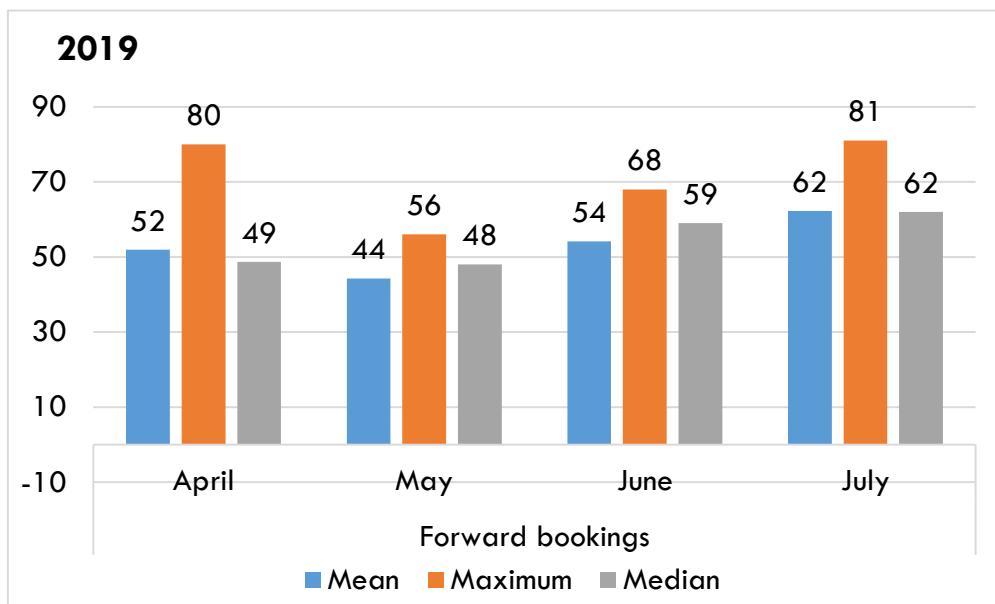
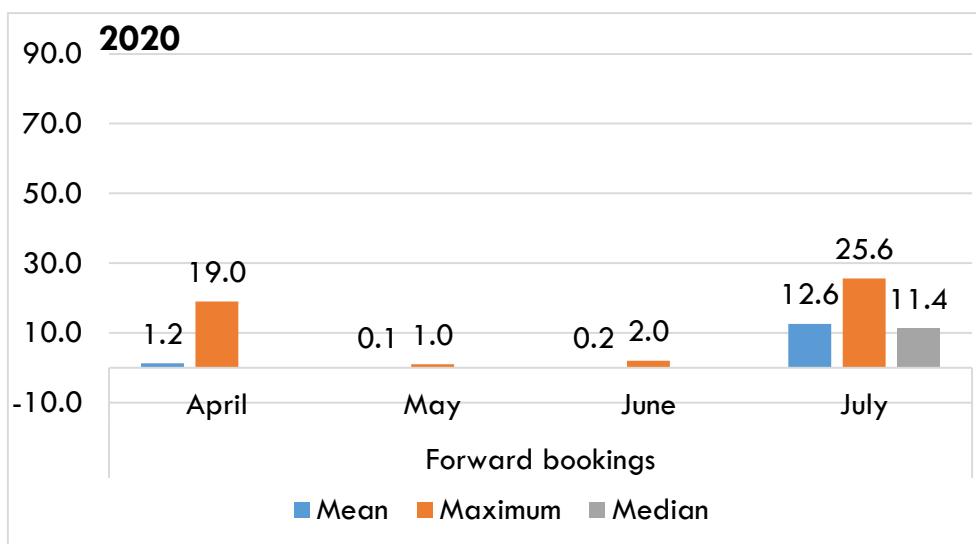


Chart 3: Forward hotel bookings (%)



4.3 COVID-19 Related Projected Revenue Losses by Hotels in 2020

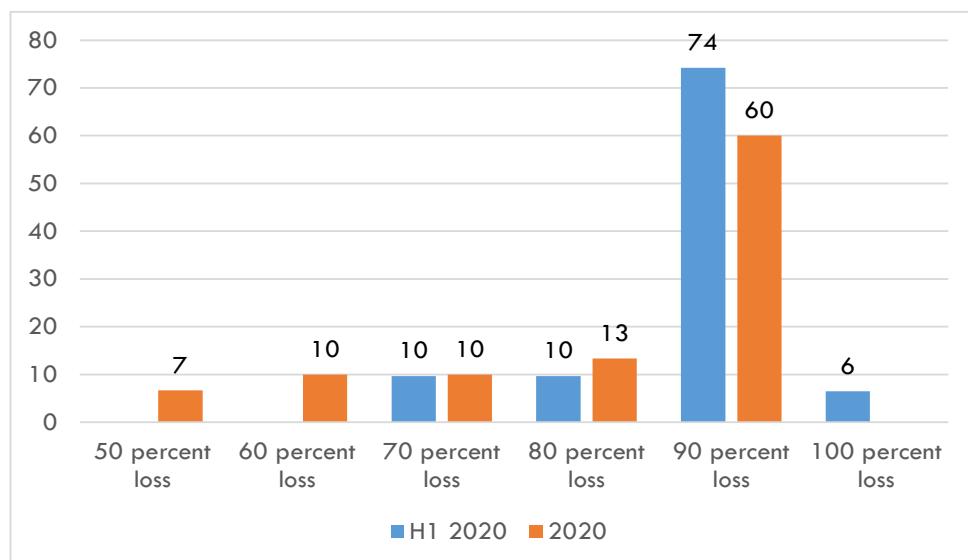
The Survey sought to find out the approximate levels of actual and expected COVID-19 related revenue losses by hotels in 2020. The results showed that about 80 % of hotels expected over 90 percent loss in revenues in the first half of 2020 (**Chart 4**).

Revenue gains in the first 2 months were expected to be dented by closures experienced from mid-March due to cancellations, refunds

resulting from the cancellations, and lower rates being charged by hotels that were still operating.

Regarding revenue losses, about 60 percent of hotels expected over 90 percent loss in 2020 due to cancellations and closures as most respondents expected closures to extend into the next 3 – 6 months, and into the second half of 2020, hence eroding the peak season's (July – October) revenue gains.

Chart 4: Projected Revenue Losses resulting from COVID-19 (%)



4.4 COVID-19 related Employee layoffs

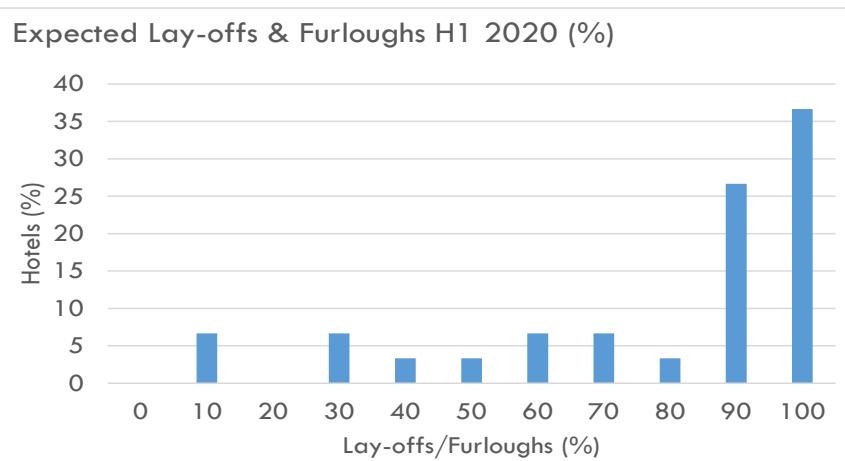
In order to get a sense of the pandemic's impact on jobs in the sector, the Survey requested hotel respondents to give the percentage of employees already laid off, or on furlough at the time of the survey, and expectations for the first six months of 2020, and the entire 2020.

At the time of the Survey over 90 percent of hotel employees had either been laid off (casual and contract staff), or on furlough (permanent staff), due to the hotel closures resulting from COVID-19 pandemic. However, estimates given

for expected layoffs in the first half of 2020, and for the entire 2020 showed some optimism with regard to when hotels expected to reopen. On average, respondents expected the hotels to remain closed for about 3-6 months, following Government's efforts to contain the pandemic, and reopen some time during the second half of the year (**Chart 5**).

Sections of some hotels, mostly from the countryside remained open and maintained some employees to provide takeaway services and carry out maintenance work.

Chart 5: Expected Employee lay-offs and Furloughs



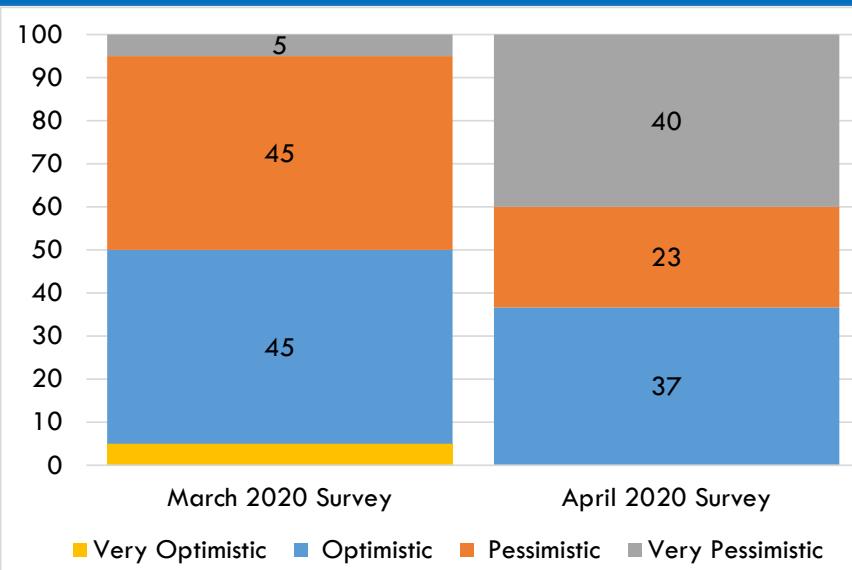
5. OPTIMISM ON KENYA'S ECONOMIC PROSPECTS BY HOTELS

The Survey requested the hotels to give their optimism levels on the country's economic prospects going forward. Hotel respondents revised downwards their optimism on the country's economic prospects relative to the previous Survey mostly due to the sheer magnitude of the COVID-19 pandemic globally, indicating that the economy would take a while to recover (**Chart 6**). In addition, respondents mentioned the locust invasion as a factor that

would likely affect agricultural output.

However, respondents expressed confidence in Government measures and efforts in dealing with the pandemic, indicating expectations of positive results in containing it. Respondents also hailed Government's efforts in trying to cushion businesses against the effects of the pandemic and cited the resilience of Kenyans to weather storms as key to the fight against the pandemic.

Chart 6: Optimism on economic prospects by hotels (%)



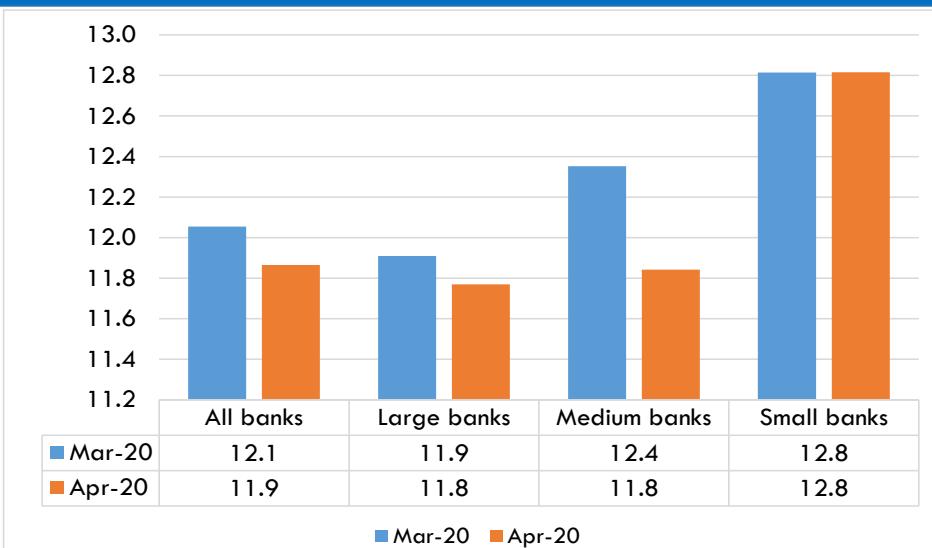
6. DEVELOPMENTS IN BANKS UNDER COVID-19 ENVIRONMENT

6.1 Perceptions on Lending rates (%)

The Survey requested respondents to indicate their current lending rates. Bank respondents indicated that they had lowered interest rates for loans advanced to lower credit risk clients after the lifting of the interest rate caps, but that the bulk of the loans remained those contracted during the interest rate capping regime. (**Chart 7**).

In addition, respondents pointed out that the lowering of the CBR and reduction of the CRR in March had also led to improved liquidity conditions in the market.

Chart 7: Lending rates perceptions (%)



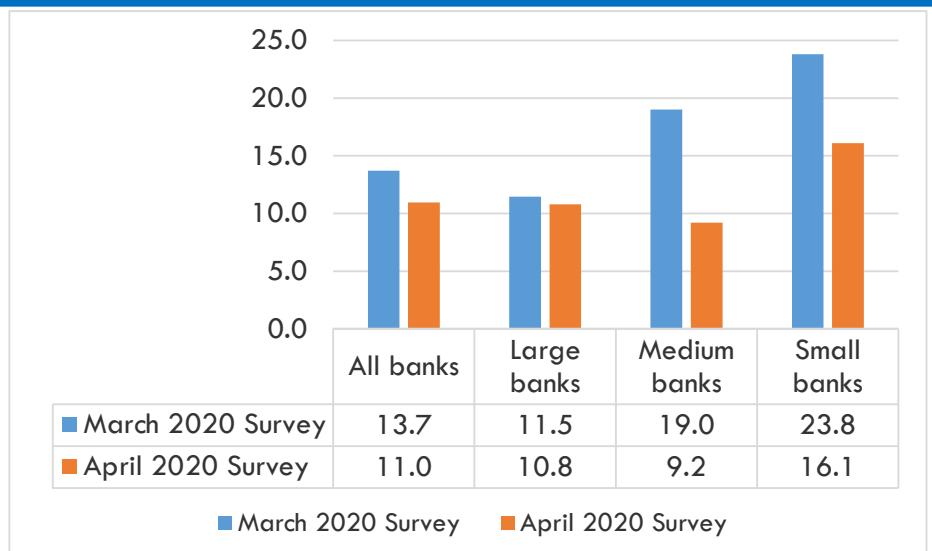
6.2 Expected Private Sector Credit Growth (%)

Bank respondents were requested to give the expected credit growth by their banks for 2020 relative to 2019. The results showed that respondents expected lower credit growth due to the global supply chain disruptions, shutdown of businesses, increase in unemployment rates and salary cuts, prolonged movement restrictions, tighter border controls due to the COVID-19 pandemic, which would impact on demand and supply of credit and cause clients to defer investment plans (**Chart 8**).

Respondents also expected banks to take a more conservative approach to lending to avoid NPLs during the COVID-19 period.

However, respondents expected credit growth to be supported by improved risk profiling, reduction of CBR and CRR, innovative credit products to support the MSMEs, Government actions to support the economy in response to the COVID-19 pandemic, and the restructuring of loans that were due as at March 2020 to support clients hard hit by the pandemic.

Chart 8: Expected Private sector credit growth (%)



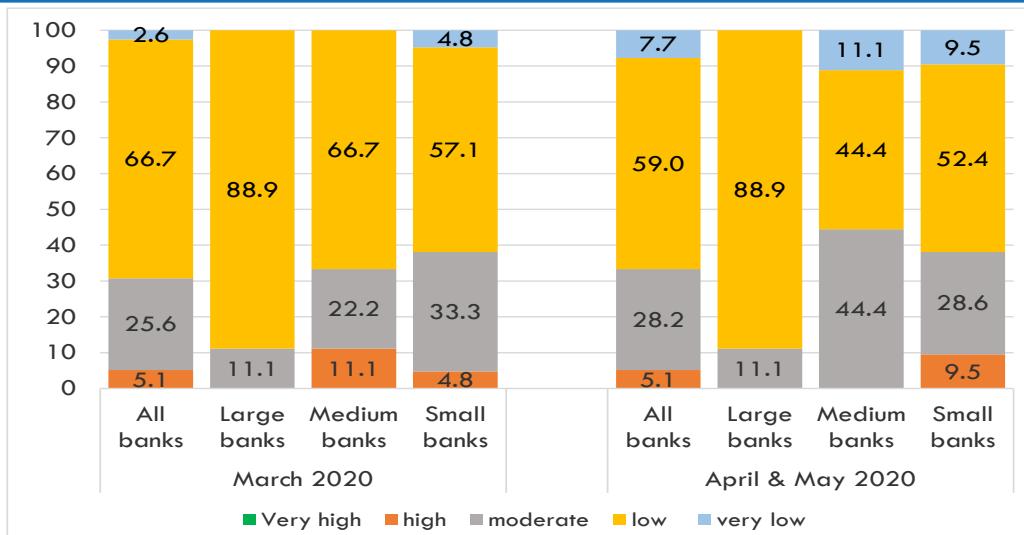
6.3 Expectations of Demand for Credit from banks (%)

The Survey requested bank respondents to give an indication of the demand for credit in March and expected demand in April and May 2020. Respondents expected demand for credit to remain low tending to moderate over the next 2 months, due to the slow-down in the economy. The slowdown due to the COVID-19 pandemic was characterized by rising unemployment, closure of businesses, salary cuts, low investment demand by firms, elevated business risks and uncertainties, with most sectors of

the economy partially shut or scaled down. In addition, respondents indicated that clients had adopted a wait and see attitude before making business commitments (**Chart 9**).

Respondents, however, indicated that credit demand would be supported by the need for personal credit, for short term bridging credit to businesses, and the ability to lend to higher risk customers, during the next 2 months.

Chart 9: Expected Demand for Credit from banks (%)



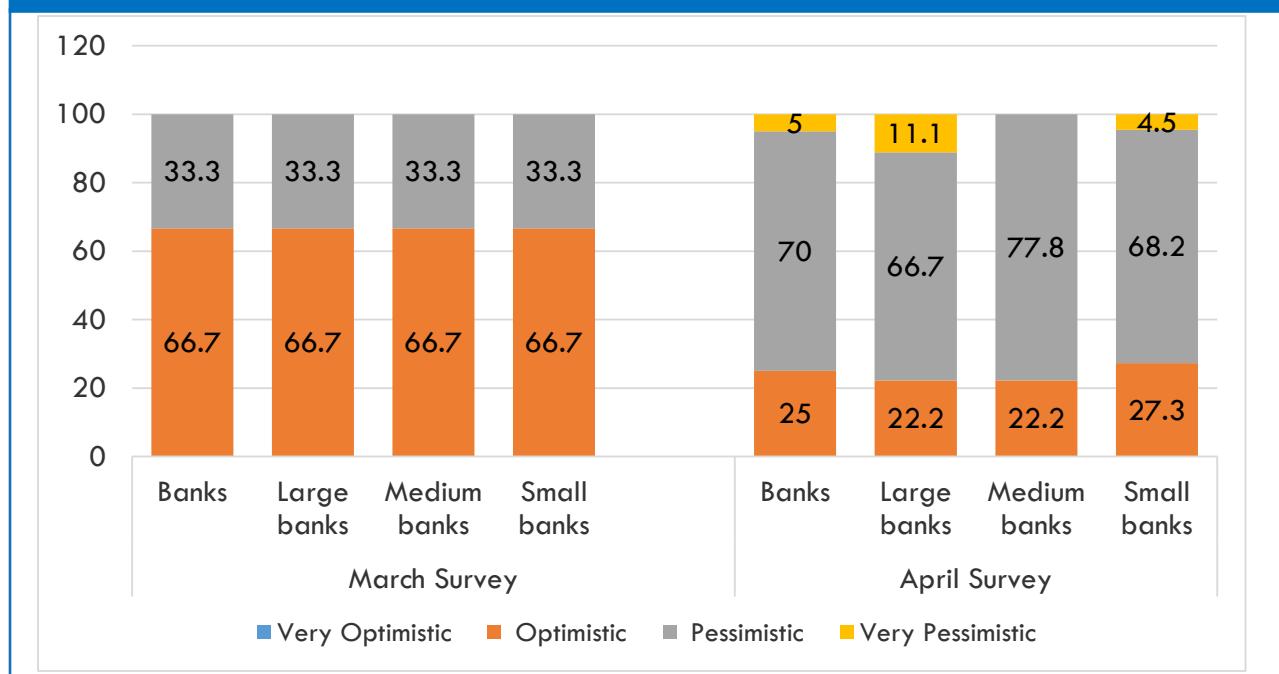
7. OPTIMISM ON ECONOMIC PROSPECTS BY BANKS

The Survey sought the optimism levels of banks with regard to the country's economic prospects going forward. Bank respondents expressed lower optimism largely due to the effects of the COVID-19 pandemic (**Chart 10**).

However, respondents expected the proactive, quick and decisive interventions by the Government in fighting the pandemic including support to MSMEs and households by reducing corporate tax, VAT and PAYE to contain the virus

in the long run. Respondents also expected CBK monetary policy interventions to protect liquidity and stability of the banking system. In addition, respondents cited the lower interest rates, declining global oil prices and the resilience of Kenyan private sector as reasons for their optimism. Lastly, respondents indicated that the pandemic had shown the capability of the country in sustaining a robust manufacturing sector, a factor that could be capitalized on after the pandemic.

Chart 10: Optimism on economic prospects by banks (%)





Central Bank of Kenya

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