



**Central Bank of Kenya**

# **Monetary Policy Committee Market Perceptions Survey**

May 2021





# CONTENTS

---

1. BACKGROUND.....	1
2. INTRODUCTION.....	2
3. SURVEY METHODOLOGY.....	2
4. HIGHLIGHTS OF THE SURVEY .....	2
5. ECONOMIC ACTIVITY .....	2
6. EXPECTED CHANGES IN EMPLOYMENT.....	3
7. EXPECTED ECONOMIC GROWTH .....	4
8. OPTIMISM ON THE ECONOMIC PROSPECTS.....	5
9. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS.....	6
10. INFLATION EXPECTATIONS.....	8
11. EXCHANGE RATE EXPECTATIONS.....	8
12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED .....	8

## 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 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 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 May 2021 MPC Market Perceptions Survey was conducted in the first three weeks of the month. The Survey aimed at obtaining perceptions by respondents on selected economic indicators for the previous two months (March and April), and expectations for the next two months (May and June), the next one year (May 2021 – April 2022), two years (May 2021 – April 2023), and five years (May 2021 – April 2026).

The Survey also inquired about the levels of demand for credit in the next two months and expected growth in credit to the private sector in 2021. In addition, the Survey interrogated market expectations on inflation, economic growth, lending rates, 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 316 private sector firms comprising 38 commercial banks, 1 mortgage finance institution, 14 microfinance banks (MFBs) and 263 non-bank private firms, including 63 hotels, through questionnaires sent in hard copy and by email. The overall response rate to the May 2021 Survey was 67 percent of the sampled institutions. The respondents comprised 38 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 159 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 commercial 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 takeaways from the May 2021 Market Perceptions Survey included:

- Sustained optimism in the country's economic prospects over the next 12 months, largely attributed to the rollout of the COVID-19 vaccine, but uncertainties remain with regard to COVID-19 pandemic.
- Expectations of improved economic activity in May and June relative to March and April with the easing of the COVID-19 restrictions.
- Upward revision of economic growth expectations for 2021 relative to the previous survey, largely due to expected rebound in all sectors that had been affected by COVID -19 in 2020.
- Mixed expectations by different sectors on employment in 2021 relative to 2020, largely due to the uncertainties on the pace of post-COVID-19 recovery.
- Expectations of increase in private sector credit growth in 2021 by banks with pick-up in economic activity
- Inflation expectations remain anchored in the next two months and one year due to low food prices, despite increasing fuel prices.

## 5. ECONOMIC ACTIVITY

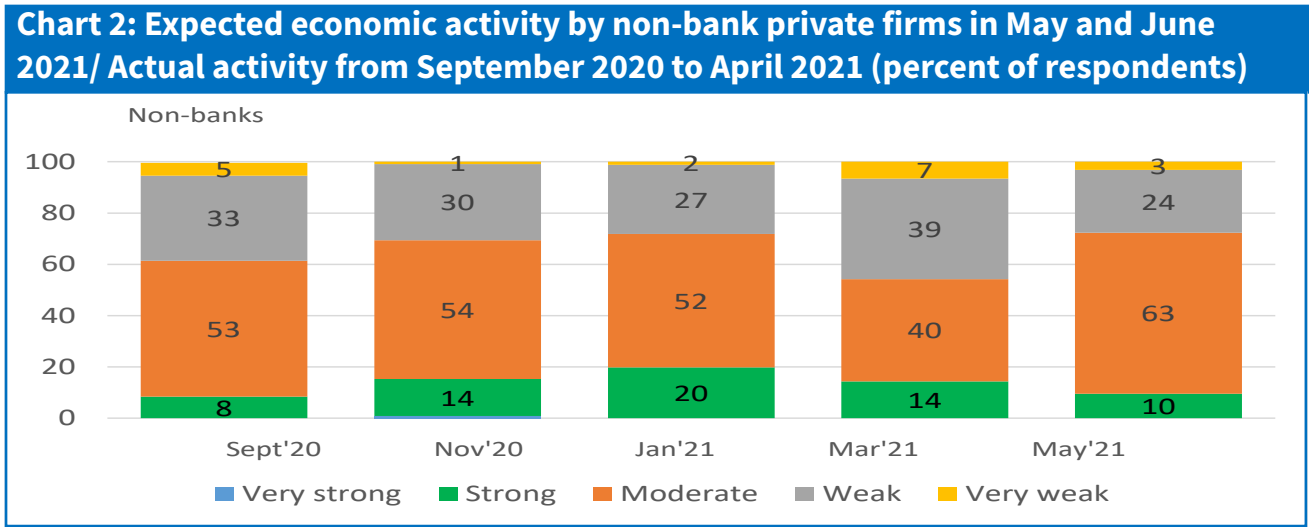
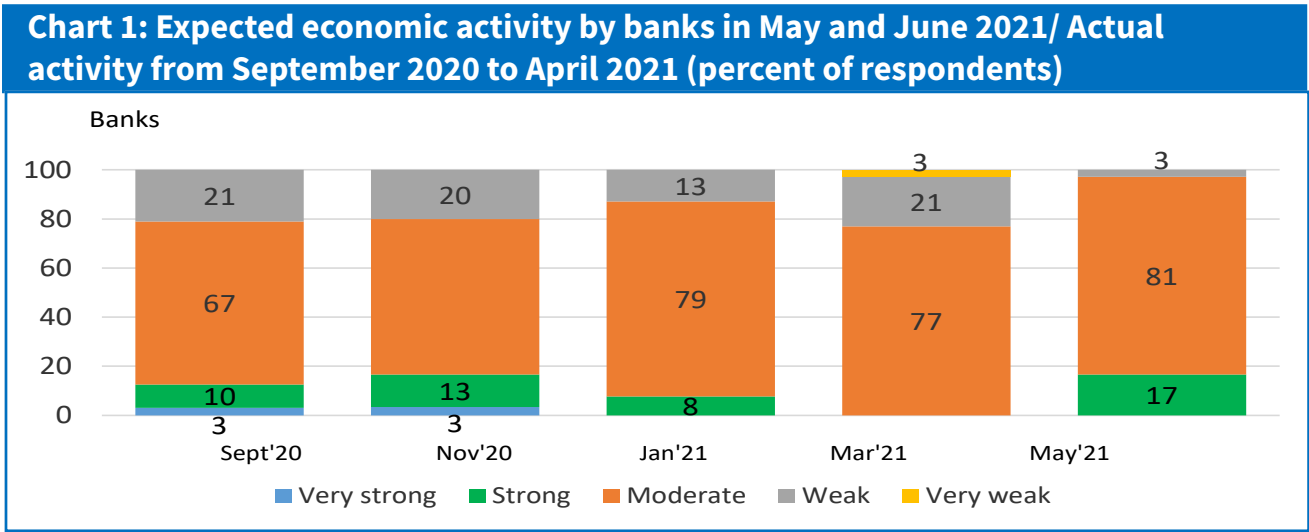
The May 2021 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in March and April, and their expectations for May and June. Respondents reported improved economic activity in March and April and expected a further improvement in May and June (**Chart 1 & 2**).

In the Survey, 68 percent of respondents expected improvement in economic activity on account of the lifting of the lockdown in the five counties on May 1, opening of learning institutions, easing of the curfew and Government efforts in management of the pandemic. Thirty percent of respondents expected Government spending on projects to boost activity in the next two months.

However, 55 percent of respondents pointed out travel restrictions from other countries and any tax increases, as risks to robust economic activity in

the next two months. The slow pace of rollout of the COVID -19 vaccine and the recurring impact of the pandemic were cited by 50 and 45 percent of

respondents, respectively, as factors likely to slow down economic activity in May and June.



## 6. EXPECTED CHANGES IN EMPLOYMENT

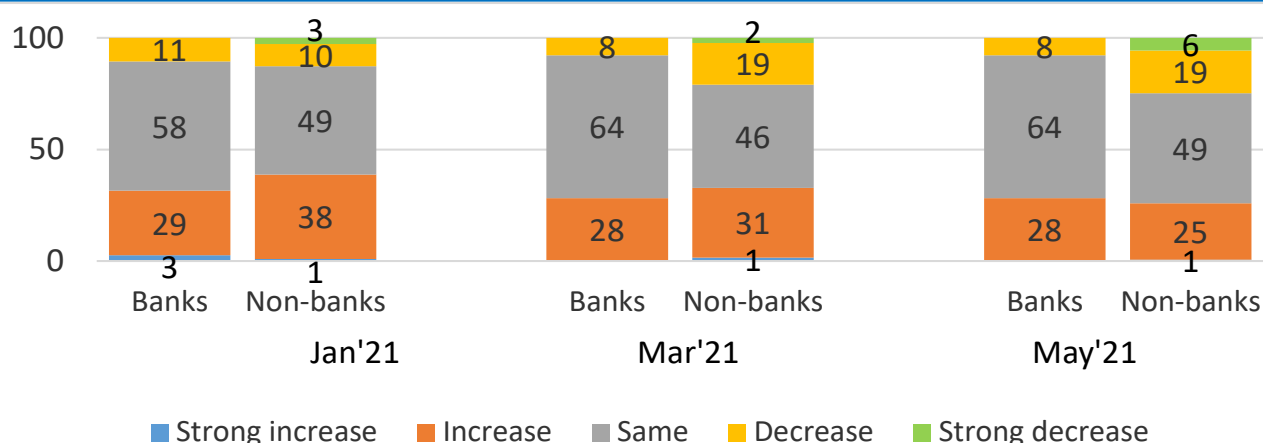
The Survey asked respondents to indicate their expectations with regard to changes in the number of employees in their respective institutions in 2021 relative to 2020. Expectations for employment in 2021 relative to 2020 varied according to sectors, with some respondents expecting to increase the numbers and others to decrease the numbers (**Chart 3**).

A return to normalcy in the business environment attributed to the rollout of the COVID-19 vaccine and easing of COVID-19 restrictions was cited by 83 percent of total respondents as the main factor supporting employment in 2021. In addition, 47 percent of respondents expected employment to

increase with improved demand as the economy recovers.

With regard to risks to employment in 2021, 76 percent of respondents cited slow recovery of business, with most operating with minimum number of employees, some having to multitask in order to cut costs. Additionally, while 51 percent of respondents cited the unpredictability of the pandemic as discouraging long term planning. Company policies to leverage on ICT and cut down on manual workforce were cited as reasons for the employment expectations by 20 percent of the respondents.

**Chart 3: Expectations on employment levels for 2021 relative to 2020 (percent)**



## 7. EXPECTED ECONOMIC GROWTH

The Survey requested participants to indicate their estimated economic growth rate for the country in 2021. Respondents revised upwards their growth rates expectations for the third consecutive survey in 2021, suggesting optimism on economic growth prospects (**Table 1**).

Almost all respondents, 91 percent, cited expected rebound in all sectors affected by COVID-19 in 2020, boosted by easing of the containment measures as the foremost reason for the expected upward revision in expected growth rates. Other reasons given for these expectations included: Government economic

recovery strategy and infrastructure spending, cited by 23 percent of respondents, Government's efforts in containing the virus including vaccine rollout, cited by 20 percent of respondents, and favourable weather conditions across the country, cited by 20 percent of respondents.

However, 34 percent of respondents indicated uncertainty around COVID-19 with emergence of new strains and waves both locally and globally as the main risk to their growth expectations in 2021.

**Table 1: Expectations on economic growth for 2021 across sectors (percent)**

	SURVEY MONTH		
	Jan-21	Mar-21	May-21
Banks	3.5	5.1	5.5
Agriculture	4.7	5.4	6.1
Manufacturing	5.1	5.1	5.4
Trade	4.5	5.0	5.4
Real estate, Building, construction	4.7	5.1	5.2
Finance & Insurance (excl. banks)	5.1	5.1	5.2
Transport & Services	4.6	4.5	5.2
Tourism(hotels & restaurants)	4.7	4.7	5.3
Non-bank private sector	4.7	5.2	5.6

## 8. OPTIMISM ON THE ECONOMIC PROSPECTS

The May 2021 Survey requested bank and nonbank private sector firms to indicate how optimistic/pessimistic they were regarding the country's economic prospects in the next 12 months.

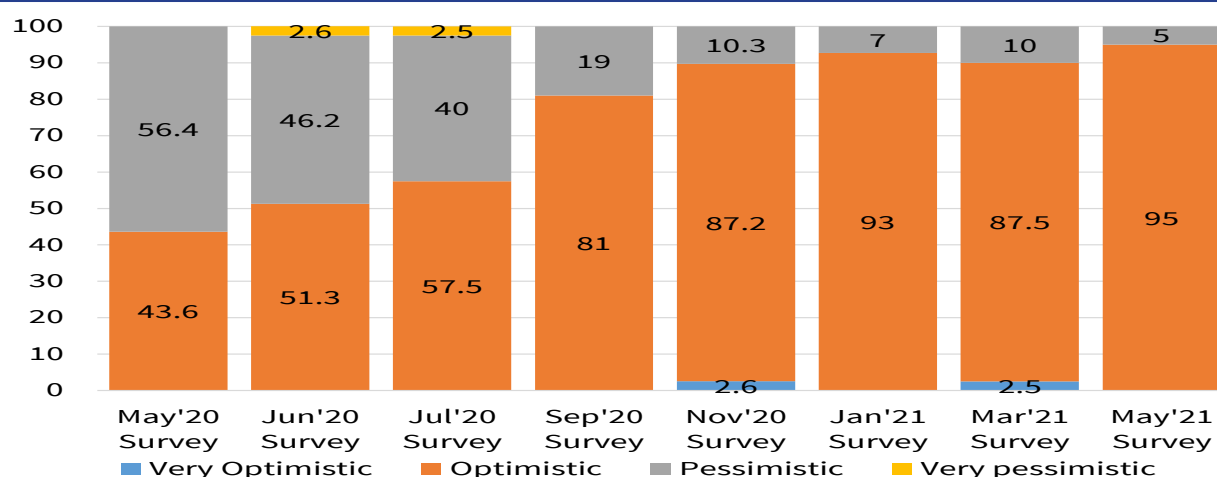
The results showed sustained optimism by respondents across banks and nonbank private sector firms (**Charts 4 & 5**).

About 86 percent of respondents attributed their optimism to the effective management of the pandemic particularly the rollout of vaccines, 65 percent cited the gradual resumption of normalcy due to easing of COVID-19 restrictions and 40 percent

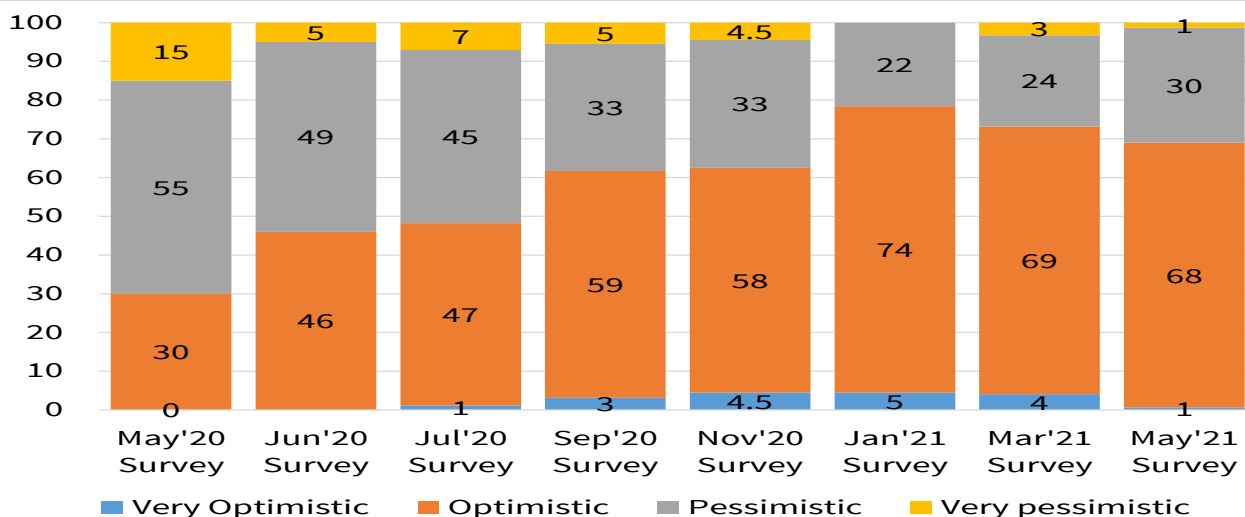
of respondents cited the favourable weather, which they expected to support agricultural performance, as their reasons for optimism in the May Survey.

However, 78 percent of respondents cited the increasing COVID-19 numbers and the uncertainty due to mutating variants as factors that could lead to the re-imposition of containment measures which would negatively impact economic activity, as the main risk to their optimism. In addition, 56 percent cited political noise with the approaching elections, and 22 percent cited debt concerns, limited fiscal space, increased taxation, and concerns about governance issues.

**Chart 4: Optimism by Banks on Economic Prospects (percent of respondents)**



**Chart 5: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)**





## 9. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

### 9.1. Growth in private sector credit in 2021

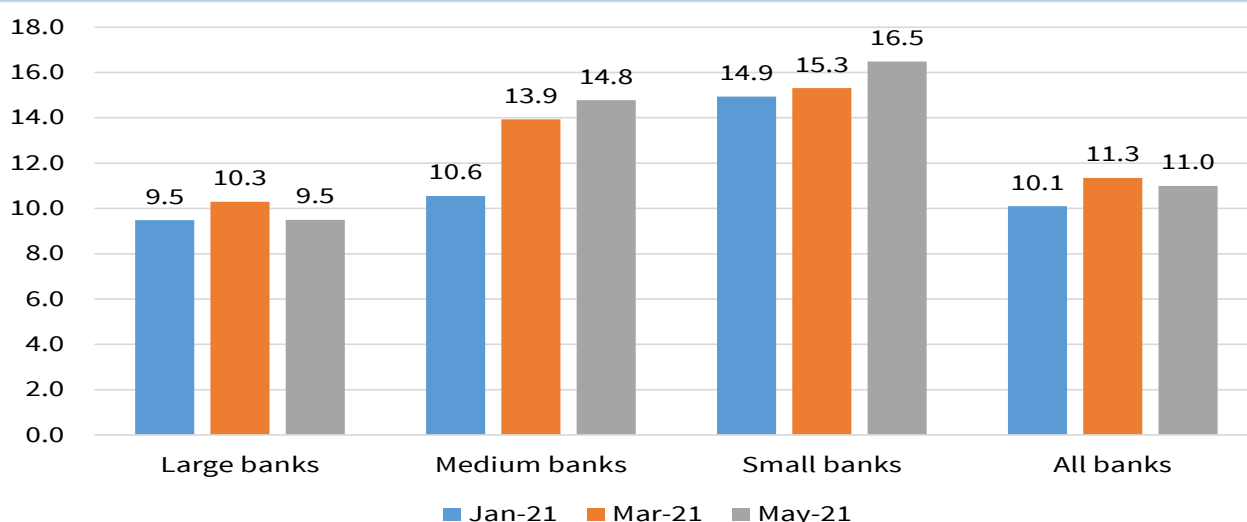
The Survey sought to find out from commercial banks, by what percentage they expected to increase credit to private sector in 2021 relative to 2020 (**Chart 6**).

Approximately 80 percent of bank respondents expected private sector credit growth to be supported by the anticipated increase in demand for credit as a result of higher economic activity as several sectors recover from the contractions experienced during the year 2020. In addition, 65 percent, 44 percent and 41 percent of respondents expected the success of COVID 19 pandemic containment measures leading to gradual reopening of more sectors of

the economy, fiscal policy interventions to support MSMEs from COVID-19 and continued favourable weather conditions, respectively, to support demand for credit in 2021.

However, 55 percent, 35 percent and 28 percent of respondents cited the uncertainty of COVID-19 pandemic which has elevated credit risks, significantly, the impact of lay-offs and salary adjustments which has seen a reduction of salary-based lending, and delays by both national and county governments in settling pending bills, respectively, as the main risks to private sector credit growth in 2021.

**Chart 6: Expectations on private sector credit growth in 2021 (percent)**



### 9.2. Expected demand for credit

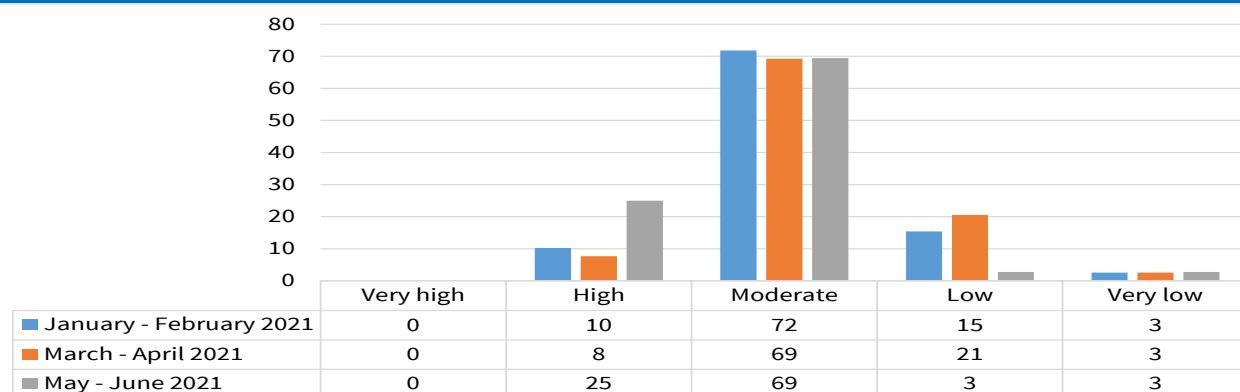
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the two months before the MPC meeting (i.e. March and April), and their expectations for May and June 2021 (**Chart 7**).

Banks expected increased demand for credit in May and June, largely due to increased business activity and optimism after the partial lockdown in March (65 percent respondents), confidence associated with continued Government's efforts to manage the

pandemic (25 percent respondents), return to school activities (20 percent respondents), and increase in payments from the Government as the financial year comes to a close (20 percent respondents).

Respondents, however, cited COVID-19 related uncertainties (40 percent respondents) and slow payment of suppliers and contractors by national and county governments (38 percent respondents) as risks to their expectations on credit demand.

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



### 9.3. Expected demand for credit from non-banks' perspective

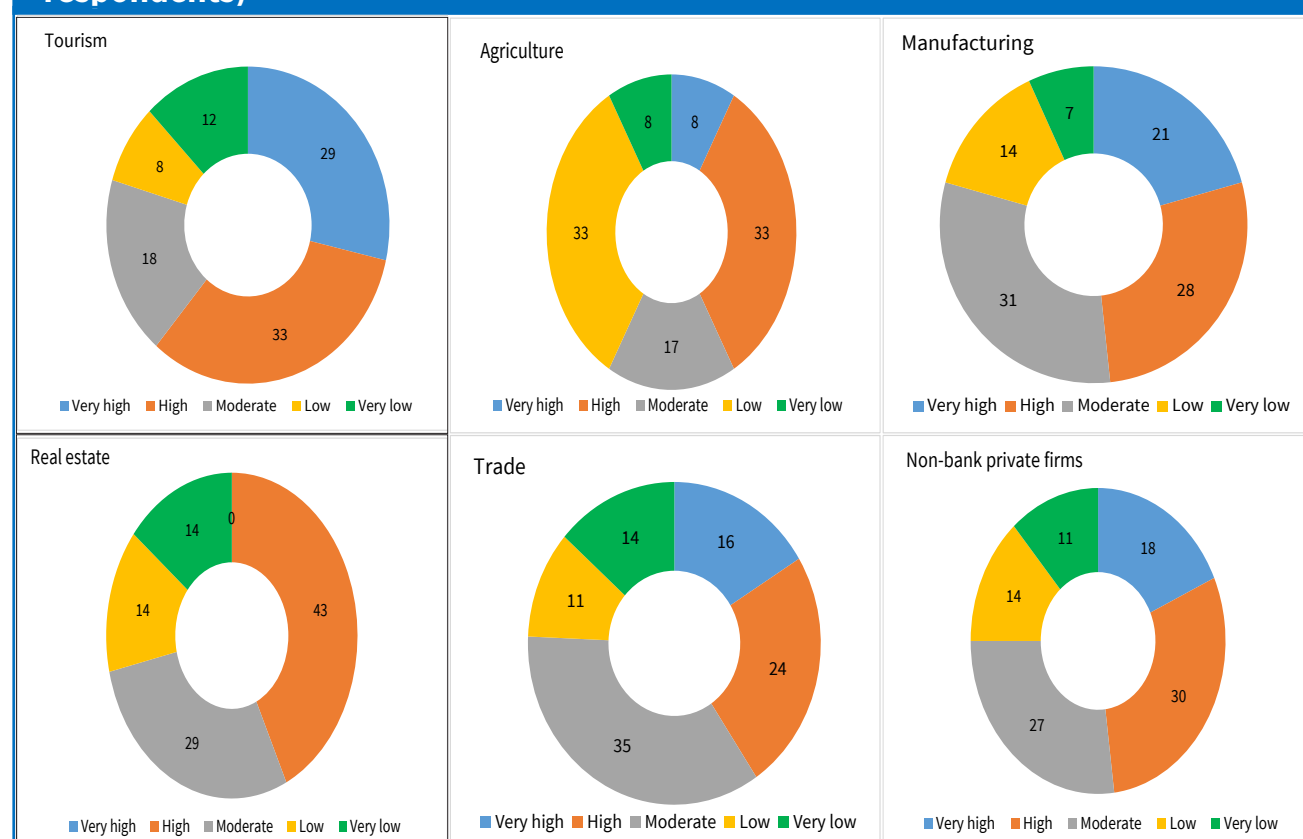
The Survey inquired from non-bank respondents the extent of their need/ demand for credit in the next 12 months. The survey results showed high demand for credit from non-bank firms in the next 12 months **(Chart 8)**.

Hotels indicated the need to restart their businesses, refurbish, upgrade and pay salaries due to low business resulting from the pandemic, while other sectors cited increased production costs, delayed payments from customers, working capital

requirements and slow business growth as reasons for the need for financing. In addition, respondents highlighted moderate demand for products, increased taxation and low sales.

The agricultural sector, however, was the only sector with up to 41 percent respondents expecting low or very low demand for credit, while 48 percent of all respondents cited high or very high demand for credit over the next 12 months.

**Chart 8: Expectations on Demand for credit from non-banks' perspective (percent of respondents)**



## 10. INFLATION EXPECTATIONS

In the May 2021 Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (May and June 2021) and for the next 12 months (May 2021 – April 2022).

Respondents expected inflation to remain well anchored within the target range supported by low food prices.

However, respondents expected some upward pressure from higher oil prices.

Respondents also expect Inflation in the next 12 months to remain within the target range.

**Table 2: Inflation expectations for May and June 2021, 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
May-Jun 2020	5.5	6.1	5.7	5.6	6.0	6.1
Jul-Aug 2020	4.8	4.9	4.8	4.8	4.6	4.7
Sep-Oct 2020	4.6	4.6	4.5	4.6	4.6	4.8
Nov-Dec 2020	4.8	5.0	4.8	4.9	4.3	4.9
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
<b>May-Jun 2021</b>	<b>5.9</b>	<b>5.9</b>	<b>5.7</b>	<b>5.9</b>	<b>5.5</b>	<b>5.8</b>
<b>INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS</b>						
Mar 2021 - Feb 2022	6.1	5.9	5.8	6.0	5.4	6.0
May 2021 - Apr 2022	5.7	5.9	5.8	5.8	5.5	6.0

## 11. EXCHANGE RATE EXPECTATIONS

The Survey sought to find out 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 May and June 2021.

Respondents expected the Shilling to be supported by higher volumes of exports especially floriculture as our export destinations reopen from lockdowns, as well as increased inflows from the diaspora.

## 12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Bank respondents pointed out the need for settlement of pending bills by national and county governments to unlock liquidity, and the need for more economic stimulus packages and tax incentives to support business continuity post-COVID-19. Other suggestions included a quick roll out of COVID-19 vaccination programme to contain the spread, public-private partnerships to enable creation of investment opportunities across all economic sectors, setting up of a centralized collateral registry

to improve efficiency and the need to reduce over regulation, which increases the cost of doing business through compliance costs.

Non-bank private firms on the other hand suggested the need to ensure that there is no over taxation, affordable credit, provision of incentives to the tourism industry, tax relief for businesses greatly affected by the pandemic, lifting of COVID restrictions and provision of a stimulus package especially for SMEs would contribute a great deal in improving the business environment.

In addition, respondents pointed out that elimination of many licences required by counties, timely release of funds to county governments to support clearance of pending bills and payments to SMEs, reduction in electricity and fuel costs, timely refunds of VAT & corporate tax and continued improvement of efficiency at the Mombasa Port, would improve the business environment.





**Central Bank of Kenya**

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