Central Bank of Kenya

Monetary Policy Committee Market Perceptions Survey

March 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 March 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 (January and February), and expectations for the next two months (March and April), the next one year (March 2022 – February 2023), the next two years (March 2022 – February 2024), and the next five years (March 2022 – February 2027).

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 355 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 March 2022 Survey was 66 percent of the sampled institutions. The respondents comprised 38 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 181 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 2022 Market Perceptions Survey included:

1. Inflation expected to remain within target range in the next 2 months. Although possible upward pressure expected due to higher oil and food prices.
2. Economic activity expected to remain moderate with a bias to increase in March and April.
3. Operation levels of firms anticipated to continue improving gradually in 2022.
4. Firms expect to increase employment in 2022 relative to 2021.
5. Economic growth expected to be strong in 2022 as key sectors continue to recover after the pandemic.
6. Banks expect an increase in private sector credit growth in 2022.
7. Sustained Optimism in the country's economic prospects, despite increased uncertainties particularly regarding Russia - Ukraine conflict.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (March and April 2022), the next 12 months (March 2022 – February 2023), the next 2 years (March 2022 – February 2024), and the next 5 years (March 2022 – February 2027) **(Chart 1 & Table 1 &2).**

Respondents (76 percent) expect inflation to remain within the target band in the next 2 and 12 months respectively, despite posible upward pressure arising from expected increase in fuel, gas and transport costs due to high international oil prices following hightened geopolitical tensions between Russia and the Westen nations. Additionally respondents expect pressure on inflatoin from higher food prices in the near term due to below average rainfall during the short rain season in the fourth quarter of 2021 and imported inflation on some items with supply chain links with Russia and Ukraine, cited by 58 percent respondents.

Respondents expect inflation to be moderated by Government measures to stabilise fuel and lower electricity tariffs (82 percent respondents), and improved food supply and lower prices due to the expected long rains (33 percent respondents).

Chart 1: Actual and Expected Inflation for (percent)

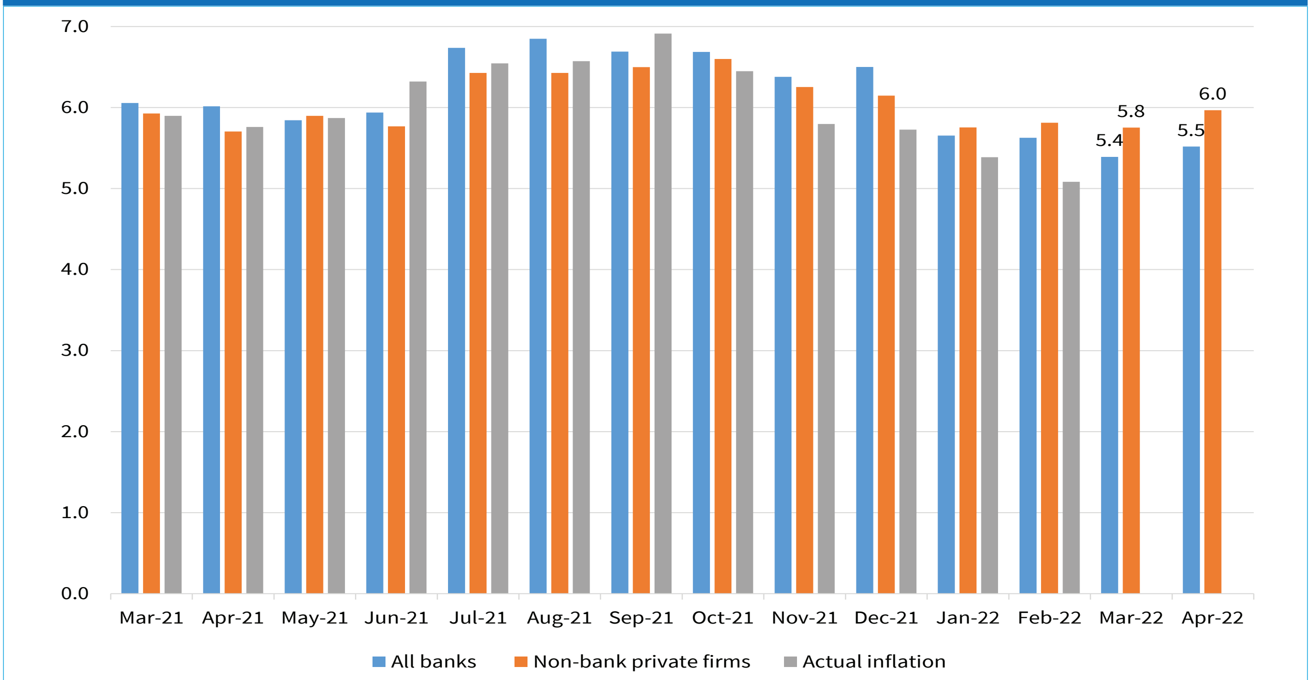


Table 1: Inflation expectations for the next 2 and 12 months (percent)

Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
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
Mar-Apr 2022	5.4	5.7	5.7	5.5	5.5	5.9
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
Mar'22 Survey	6.0	5.6	6.1	5.9	5.8	6.0

In the medium term, respondents expect policy measures and economic growth to keep inflation anchored 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	5.6	5.4	5.6	5.6	5.2	5.5
Next 5 years	5.4	5.4	5.5	5.4	5.1	5.2

6. ECONOMIC ACTIVITY

6.1. Economic activity

The March 2022 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in January and February 2022, and their expectations for March and April 2022. Respondents expected economic activity to remain largely moderate but with a tendency to increase **(Chart 2 & 3).**

About 83 percent of the respondents expected renewed optimism due to the reduction in COVID-19 cases, lifting of restrictions, increased vaccinations, and full reopening of businesses. The onset of the long rains, which portends favourable weather, and expected public spending ahead of the elections were cited by 46 and 26 percent respondents, respectively, as factors that would support economic activity in the next 2 months

However, 48 of percent respondents cited the rising global commodity prices, especially oil prices and the effect on inflation and production as a major risk to economic activity. Other risks included the rising food prices (48 percent respondents), increased political activity which could dampen investor confidence (44 percent respondents), and the Russia/Ukraine conflict which could disrupt demand and supply chains (20 percent respondents).

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

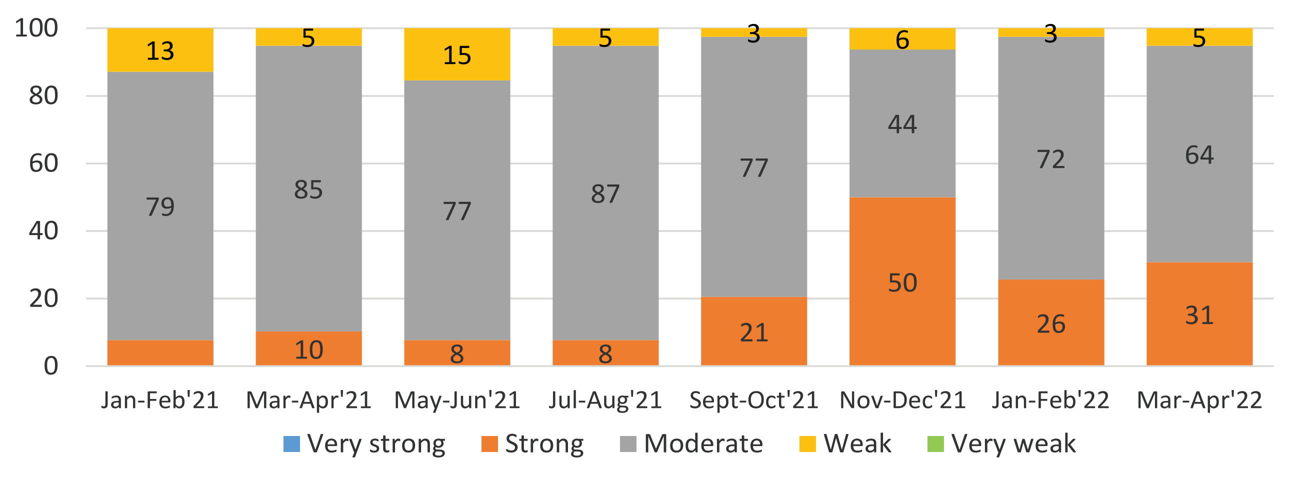
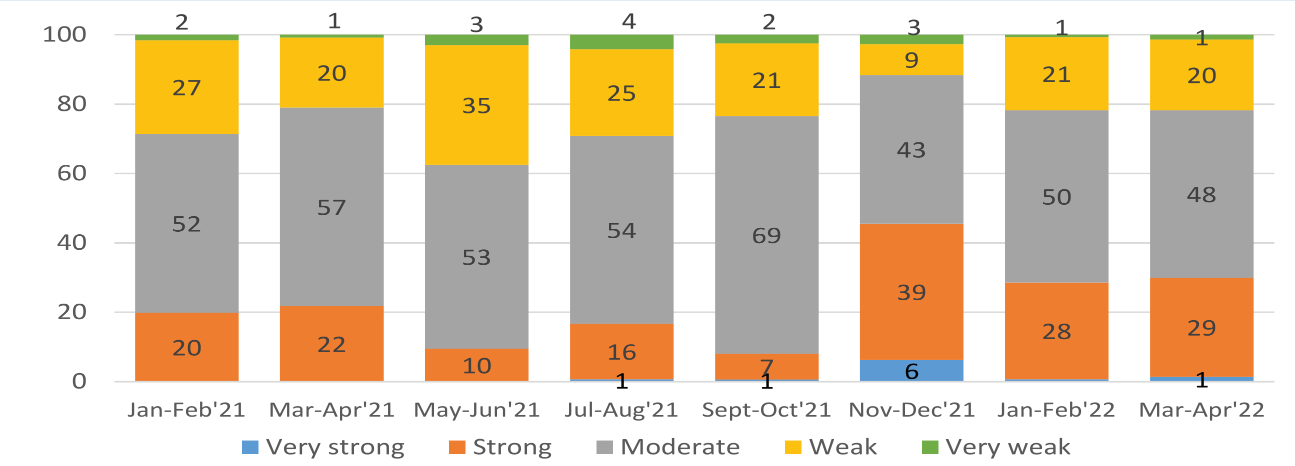


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



6.2. Firms' Operations levels

The Survey sought to find out from respondents the expected levels of operation (functioning, running and performance) for Q1, Q2, Q3 and Q4, 2022. Compared with the respective pre-COVID-19 operation levels given in the November 2021 survey, the results expectations of recovery, with some sectors already having surpassed their pre-Covid levels. **(Charts 4a & 4b).**

Bank respondents reported to have surpassed the pre-COVID-19 operation levels and were on course to much higher levels in 2022, indicating that activities were back to normal supported by the opening up of the economy and better management of the pandemic.

Hotel respondents reported increased advance bookings that were yet to be confirmed, and expectations of improved business attributed to political activities and the approaching peak seasons while the construction sector respondents expected operations in the first half of 2022 to be driven by a push to complete various projects before the end of the 2021/2022 fiscal year.

The other non-bank sectors expected a slight decline in Q3 on account of the fourth coming general elections in August.

Chart 4a: Expected Operation levels (Percent of respondents)

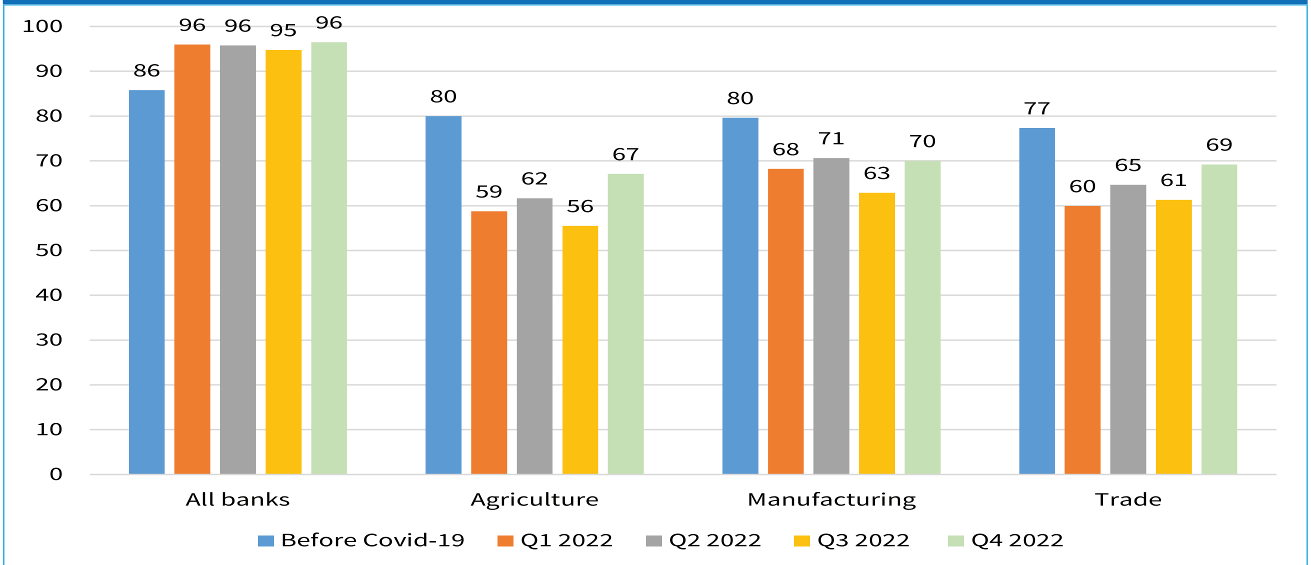
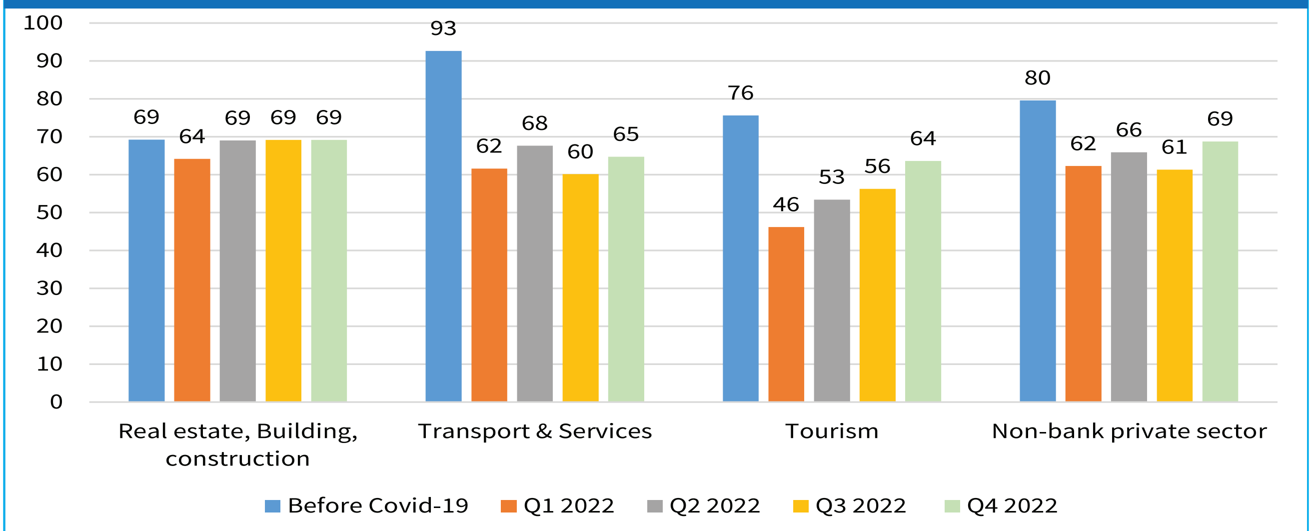


Chart 4b: Expected operation levels (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

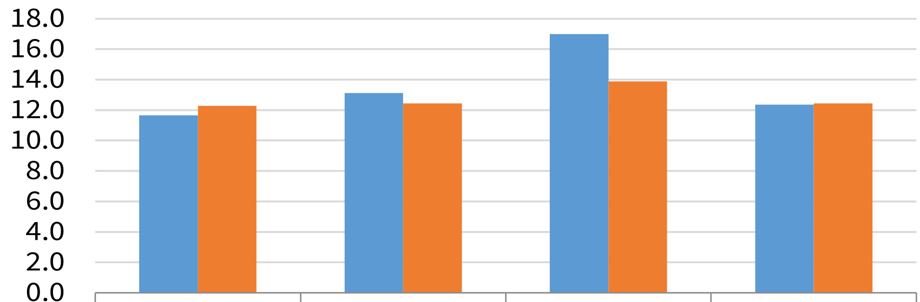
7.1. Growth in private sector credit in 2022

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 5).**

Approximately 76 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, development of innovative products as businesses borrow to restore operations, and increased vaccination. In addition, 59 percent respondents expected more focus on supporting the MSMEs measures through various financing options including partnering with financial institutions through Credit Guarantee Scheme, while 27 percent respondents cited easy access to credit as a reason for the expected increase in private sector credit growth in 2022.

However, most respondents cited the increased political activity as the major risk to private sector credit growth.

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



	Large banks	Medium banks	Small banks	All banks
Jan-22	11.6	13.1	17.0	12.3
Mar-22	12.3	12.4	13.9	12.4

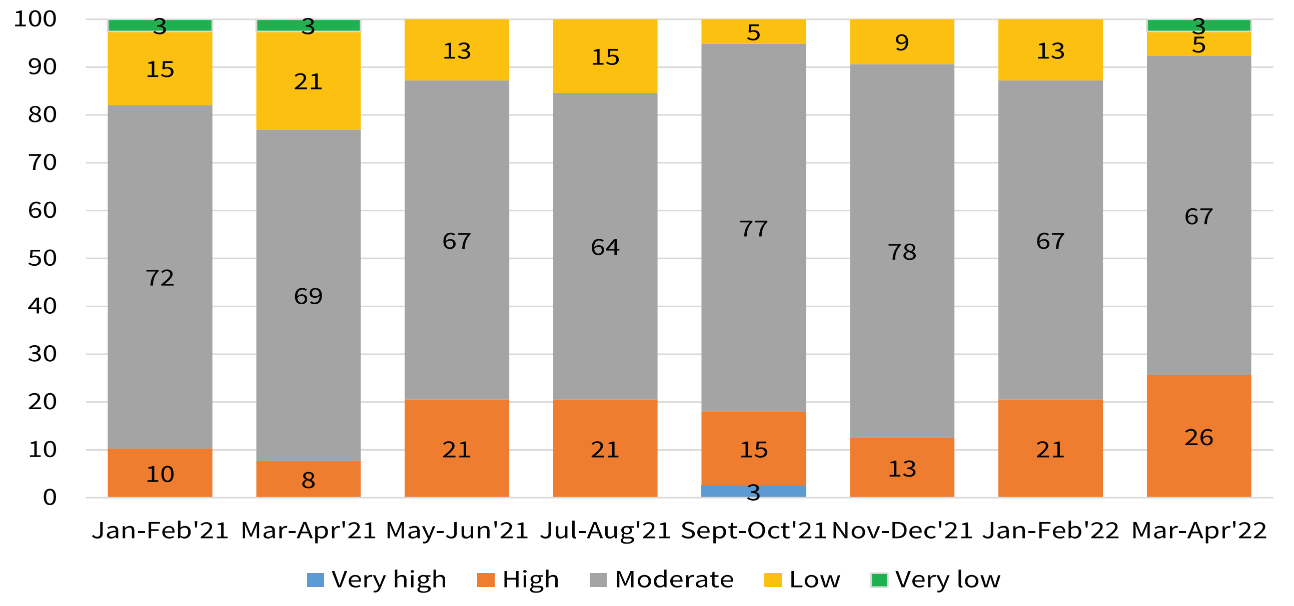
■ Jan-22 ■ Mar-22

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. January and February 2022), and their expectations for March and April 2022 **(Chart 6).**

Respondents expected moderate demand for credit by borrowers in March and April, driven by increase in economic activities and growth in businesses with full reopening of the economy, after relaxation of restrictions (81 percent respondents).

However, about 78 percent respondents expected credit demand to be slowed down by deferred investments and a wait and see approach by investors in the election year.

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 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 7 & 8).**

Approximately 82 percent of respondents expected full resumption of businesses, economic activities, financial stimulus programmes and significant progress in vaccinations, reduced risks from the pandemic, implementation of the economic recovery strategy, improving domestic demand, strong consumer spending, lifting of public health restrictions and improved business sentiment to support economic growth in 2022.

However, risks to 2022 growth included reduced economic activities, and possible dampening of investor confidence due to the upcoming general elections (79 percent respondents), and the Russia /Ukraine conflict (21 percent respondents).

Respondents indicated that their medium-term outlook is optimistic, and assumed normal activity as GDP returns to trend levels **(Chart 8).**

Chart 7: Expectations on economic growth for 2022 (percent)

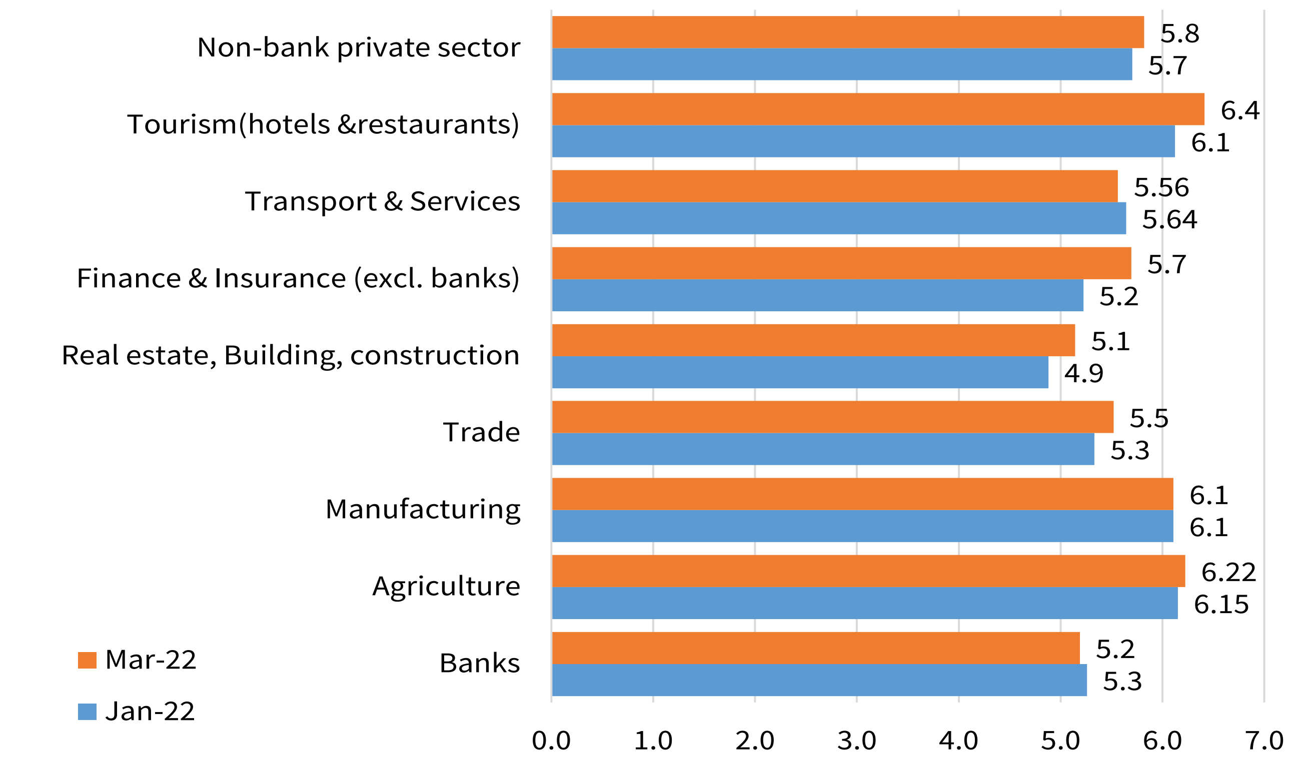
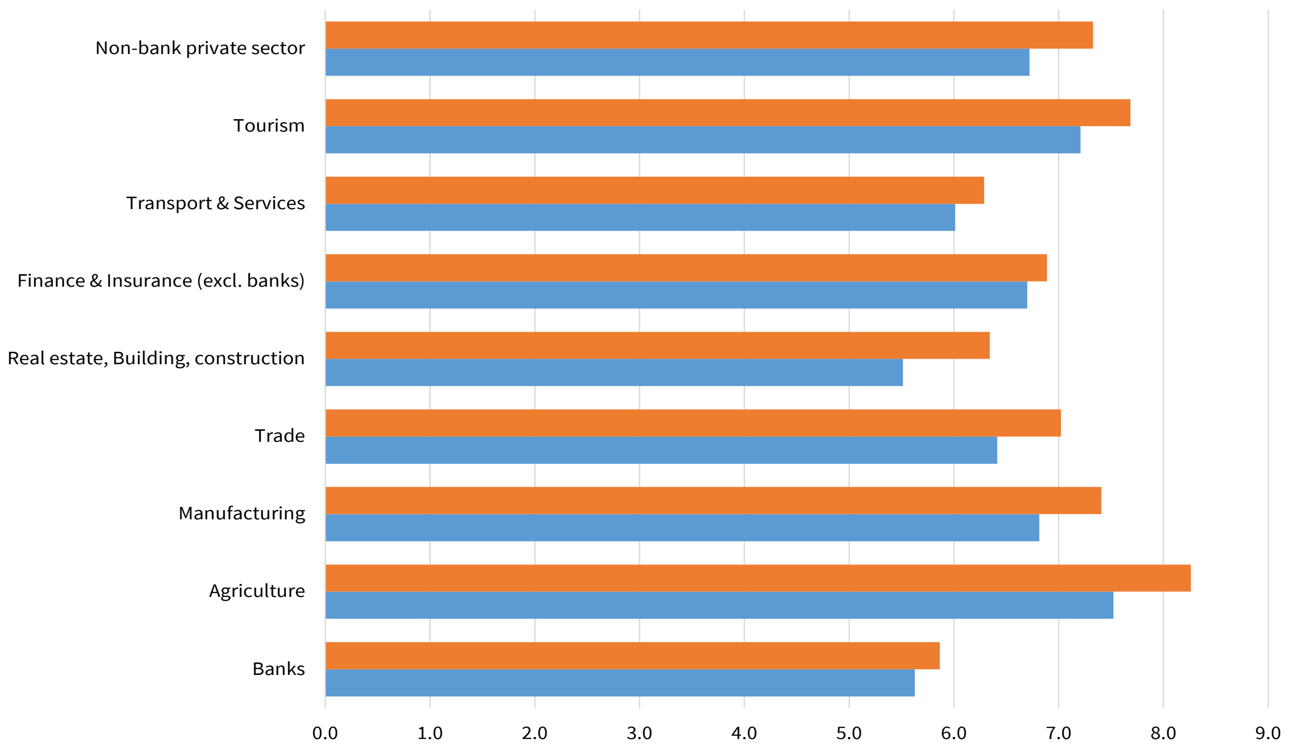


Chart 8: Expectations on economic growth for the next 2 years (2023) and the next 5 years (2026) (percent)



	Banks	Agriculture	Manufacturing	Trade	Real estate, Building, construction	Finance & Insurance (excl. banks)	Transport & Services	Tourism	Non-bank private sector
2026	5.9	8.3	7.4	7.0	6.3	6.9	6.3	7.7	7.3
2023	5.6	7.5	6.8	6.4	5.5	6.7	6.0	7.2	6.7

9. OPTIMISM ON THE ECONOMIC PROSPECTS

The March 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 9 & 10).**

About 69 percent respondents pointed out improving economic activities and economic growth prospects following the easing of restrictions both locally and globally on the back of lower COVID-19 infections and increased vaccinations as the main reason for their optimism. Other reasons included Key infrastructure projects expected to contribute to economic growth, and expenditure on various ongoing projects, including those under the Big-4 agenda, cited by 36 percent respondents.

However, the main risk to this optimism cited by 50 percent respondents was the possible negative effect of the Russia-Ukraine conflict on Kenya's export demand, oil prices, exchange rate and inflation. In addition, 42 percent respondents cited election driven uncertainty effect on investments and economic projects as a risk to their optimism.

Chart 9: Optimism by Banks on Economic Prospects (percent of respondents)

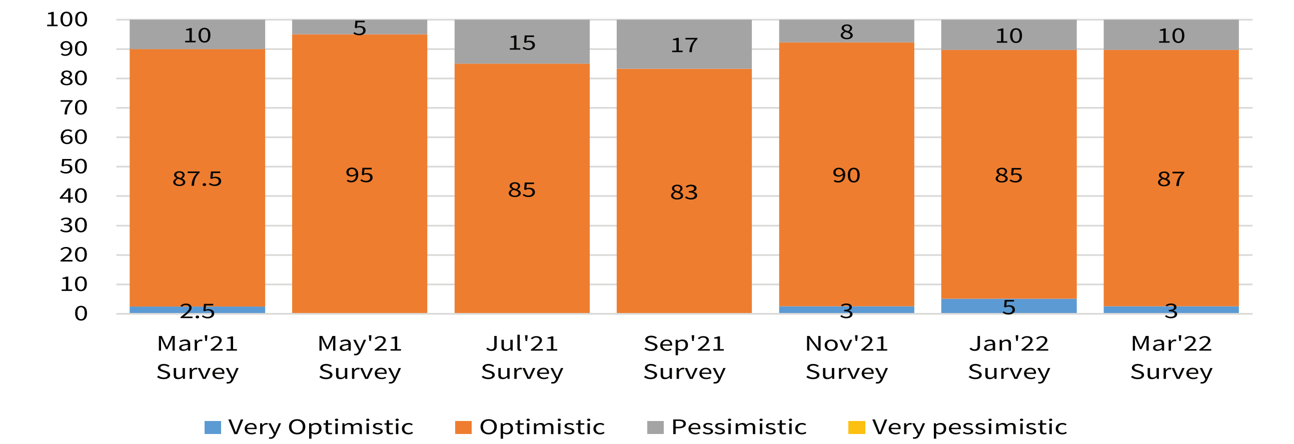
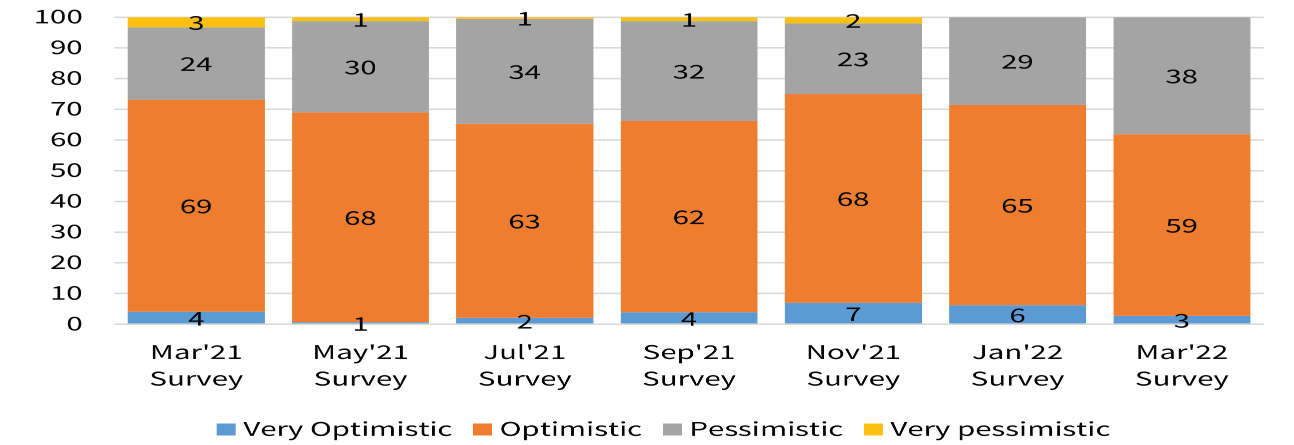


Chart 10: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



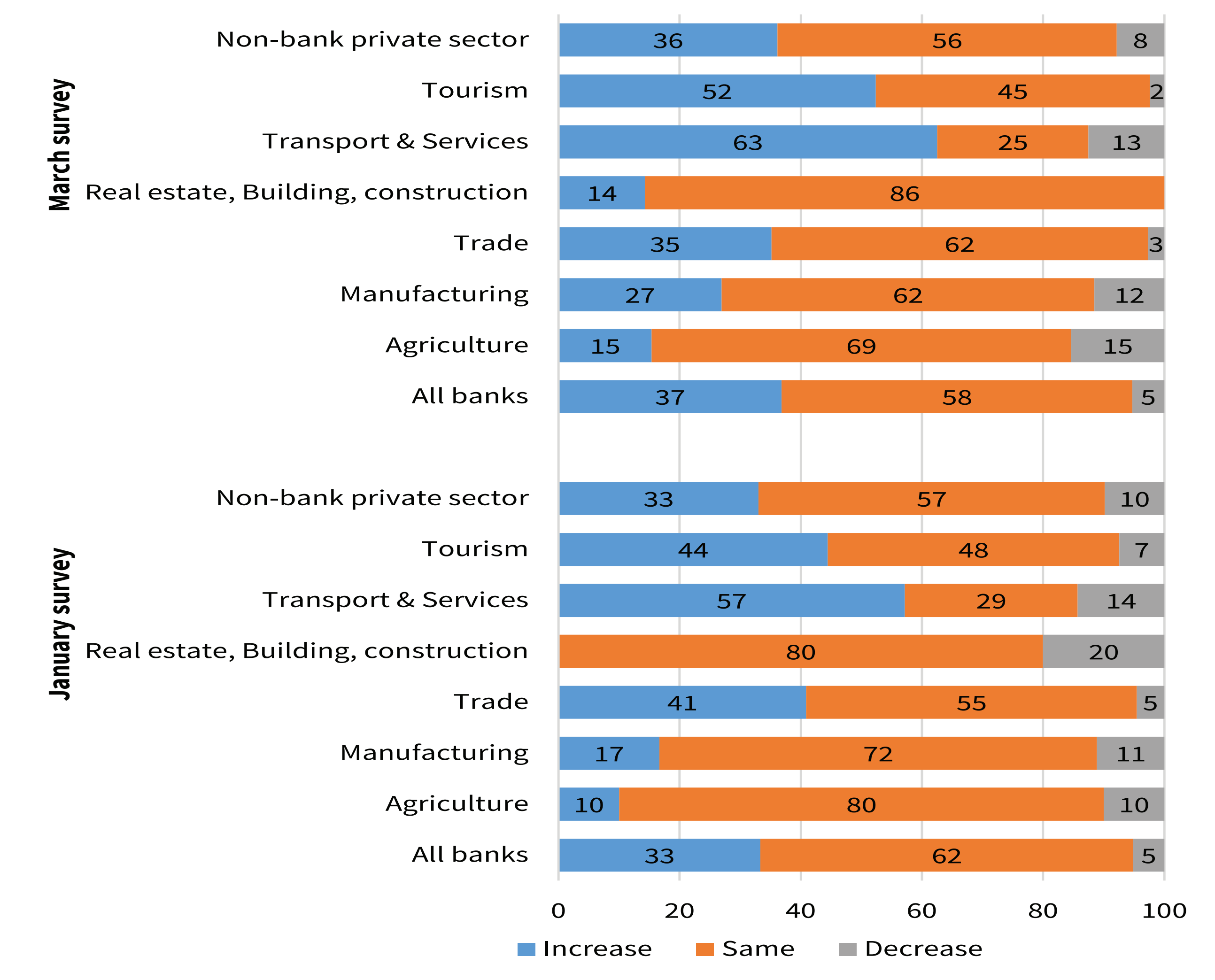
10. EXPECTED CHANGES IN EMPLOYMENT

The Survey asked respondents to indicate their expectations regarding change in the number of employees in their respective institutions in 2022 relative to 2021. Respondents expected increased employment in 2022 relative to 2021 for most sectors **(Chart 11).**

Banks expected to recruit due to expansion, strong business prospects, high growth targets and to augment their digital capabilities, while hotel respondents expected business to pick up due to increased political activities and school holidays, hence the need to hire permanent and casual staff to cater increasing business.

Transport sector respondents expected increased demand for services with lifted COVID -19 restrictions and businesses return to normal levels, while other non-bank respondents expect increased job opportunities with business expansions as a result of increasing demand.

Chart 11: 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 March and April 2022.

Respondents expect the Shilling to be supported by the stable foreign exchange reserves and increased US Dollar inflows from the diaspora. However, respondents cited a stronger US Dollar due to its safe-haven appeal arising from the geopolitical tensions, and rising import bill as global oil prices fluctuate, as the main risks to the exchange rate.

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.

The respondents also 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.

13.CONCLUSION

The March 2022 Market Perceptions Survey revealed that inflation was expected to remain within the target band in the next two months despite the elevated expectations. The Survey also revealed sustained optimism in the country's economic prospects on the back of expected increases in economic activity, operations levels, employment levels, economic growth, and private sector credit, following full resumption of activities with reduced COVID-19 numbers and anticipated long rains. Nevertheless, increased uncertainties regarding the Russia - Ukraine conflict, and heightened political activities locally were cited as risks to this optimism.

Central Bank of Kenya

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

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