



Central Bank of Kenya

Market Perceptions Survey

November 2022



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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 November 2022 Market Perceptions Survey was conducted in the first two weeks of the month. The Survey aimed at getting perceptions by respondents on selected economic indicators for the previous two months (September and

October), and expectations for the next two months (November and December), the next one year (November 2022 – October 2023), the next two years (November 2022 – October 2024), and the next five years (November 2022 – October 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 and levels of operations by companies.

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 administered online. The overall response rate to the November 2022 Survey was 35 percent of the sampled institutions. The respondents comprised 36 commercial banks, 6 micro-finance banks, and 83 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 November 2022 Market Perceptions Survey included:

1. Overall Inflation expected to remain elevated in the next 2 months.
2. Economic activity expected to remain strong in November and December.
3. Economic growth expected to remain resilient in 2022, despite the risks from weak agricultural performance and high inflation.
4. Banks expect an increase in private sector credit growth in 2022.
5. Sustained optimism in the country's economic prospects.
6. Strong forward hotel bookings, with increased international tourist arrivals and the upcoming holiday season.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (November and December 2022), the next 12 months (November 2022 – October 2023), the next 2 years (November 2022

– October 2024), and the next 5 years (November 2022 – October 2027) (**Table 1 & 2**). Respondents expected inflation to remain elevated in the next 2 months.

46 percent of the respondents expected elevated food prices on account of reduced agricultural output and distribution challenges related to high transport costs, while 38 percent respondents expected elevated energy prices, the resultant high cost of production and hence higher commodity prices due to high international oil prices and lifted fuel subsidies to exert upward pressure on inflation in November and December. Additionally, 23 percent respondents expected upward pressure on inflation from the impact of a stronger dollar and more expensive imports.

Nevertheless, about 50 percent respondents, expected some relief on inflation from stabilizing international oil prices and the onset of short rains, which is expected to drive down cost of food particularly fast-growing vegetables.

In addition, respondents expected the easing global prices of food commodities to lead to lower food prices.

However, over the next 12 months, inflation was expected to moderate.

Table 1: Inflation expectations for November and December 2022, 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
INFLATION EXPECTATIONS FOR THE NEXT 2 MONTHS						
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
May-Jun 2022	7.1	6.9	6.8	7.1	6.7	7.2
Jul-Aug 2022	8.2	8.1	7.9	8.1	7.9	7.5
Sep-Oct 2022	8.6	8.7	8.7	8.7	8.5	8.2
Nov-Dec 2022	9.8	9.7	8.7	9.7	9.6	9.4
INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS						
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
May'22 Survey	6.9	6.3	6.5	6.8	6.3	6.8
Jul'22 Survey	7.8	6.7	7.1	7.6	7.1	6.8
Sep'22 Survey	6.9	7.3	7.7	7.0	5.5	6.8
Nov'22 Survey	7.2	6.8	7.1	7.1	5.5	7.8

In the medium term, respondents expect inflation to decline and remain within the target levels supported by expected easing in geopolitical tensions, improved food supply, improvement in supply chains and impact of monetary policy measures.

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	6.3	6.1	7.0	6.3	5.4	6.9
Next 5 years	5.8	5.7	6.2	5.8	5.3	6.1

6. ECONOMIC ACTIVITY

6.1. Economic activity

The November 2022 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in September and October 2022, and their expectations for November and December 2022. Respondents expected economic activity to increase in November and December (**Chart 1 & 2**).

60 percent of respondents attributed the expected increase in economic activity to a return to normalcy, especially in the private sector, with increase in demand for services post elections.

However, respondents highlighted some risks to economic activity in November and December including high food and energy prices affecting household spending and expansion in new orders as a result of increased input costs, and a strong US dollar, affecting ability of economic actors to import essential inputs for production and consumption and ability to repay dollar denominated loans, cited by 76 percent and 29 percent of respondents, respectively.

Chart 1: Expected economic activity by banks (percent of respondents)

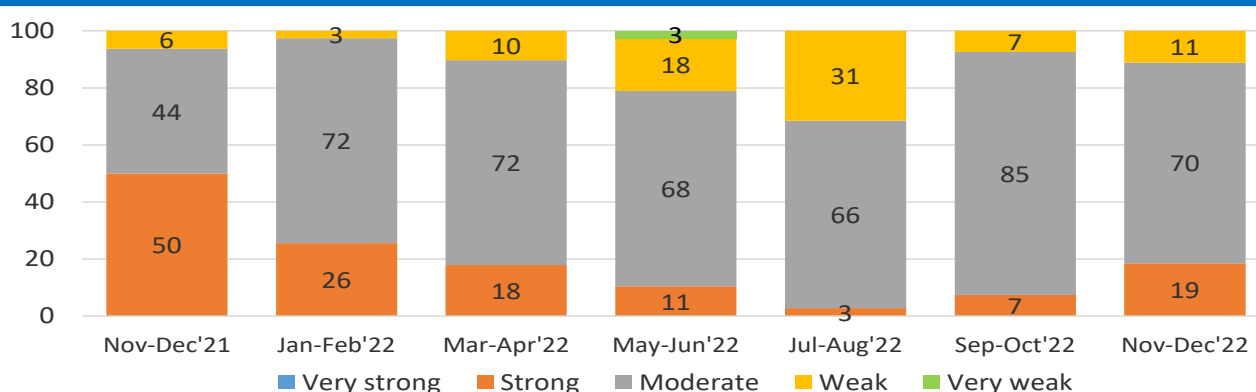
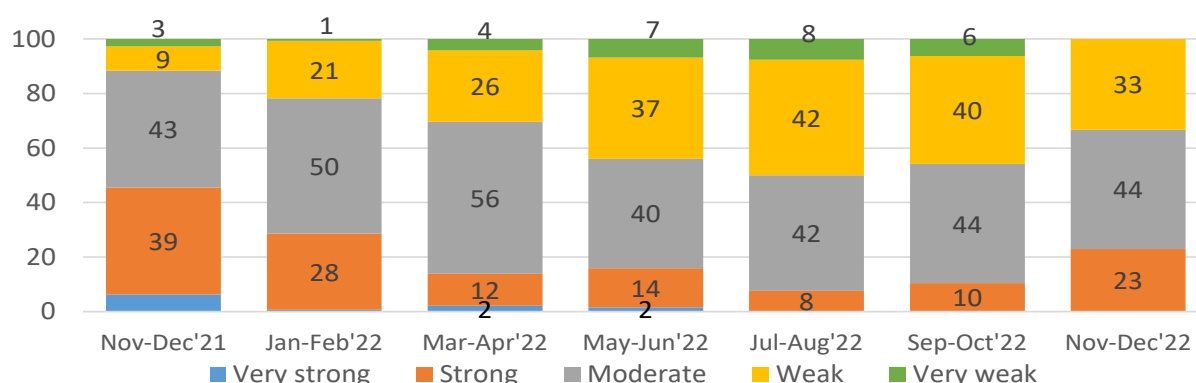


Chart 2: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit in 2022

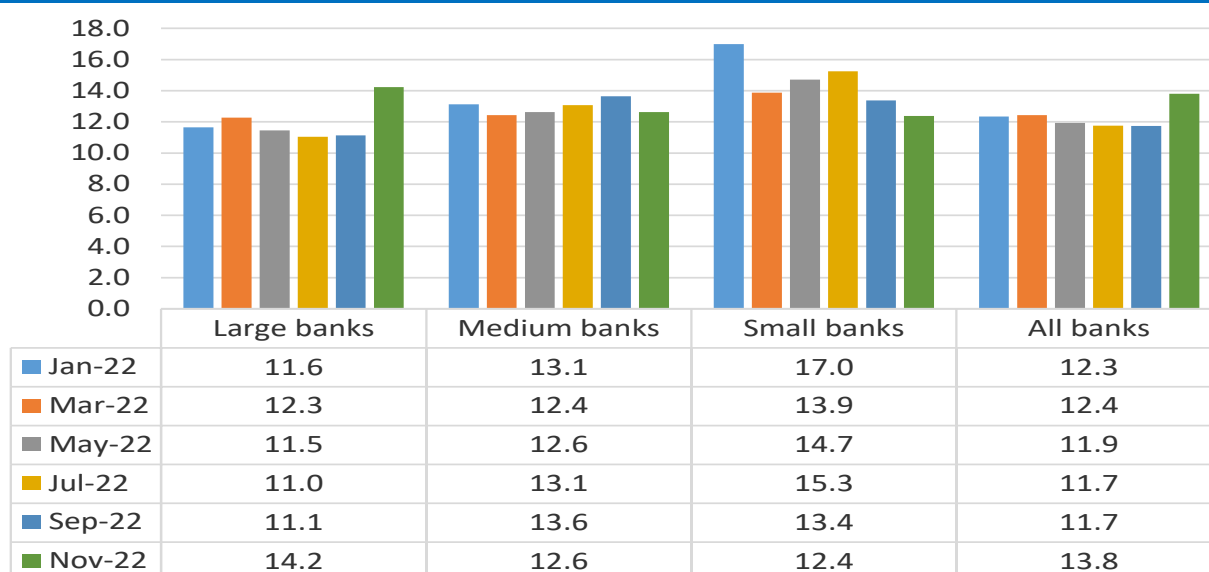
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2022 relative to 2021. Respondents expected an increase in private sector credit growth in 2022 relative to 2021 (**Chart 3**).

50 percent of respondents expected private sector credit growth to be supported by expected increase in demand to meet business and

personal needs as businesses initiate capital expenditures and the business environment continues to improve post Covid and post elections, and optimism in the economic recovery and increased economic activity post Covid and post elections, respectively.

However, respondents indicated that the impact of the slowdown in economic activity during the general elections could affect the 2022 growth in private sector credit growth.

Chart 3: Expectations on private sector credit growth (percent)



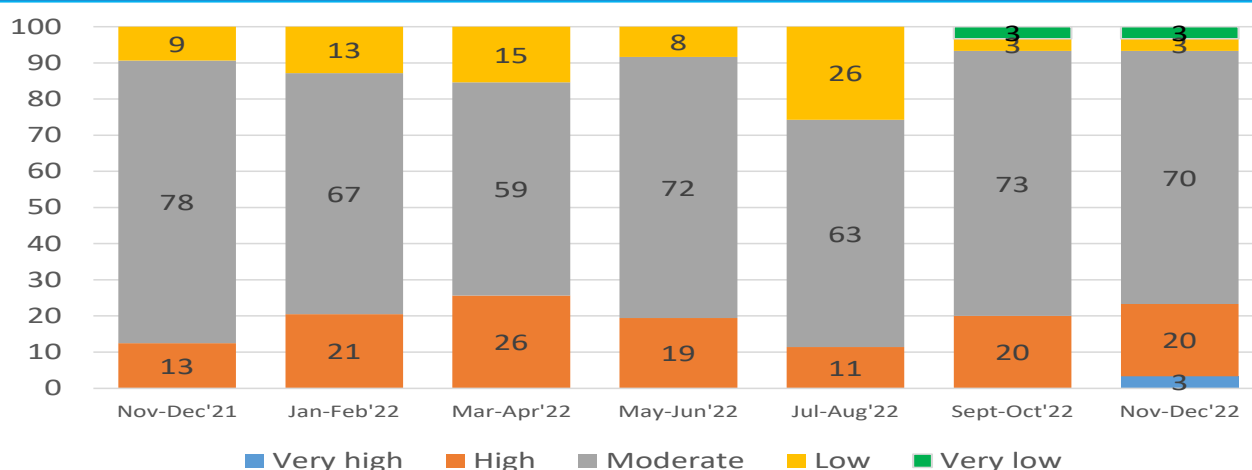
7.2. Expected demand for credit

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. September and October 2022), and their expectations for November and December 2022 (**Chart 4**).

Banks expected demand for credit to be supported by increased confidence post elections and increased spending during the festive season.

Risks to demand for credit included the increasing inflationary pressure and possible precautionary measures by banks in an environment of higher interest rates.

Chart 4: Expectations on Demand for credit from banks' perspective (percent of respondents)

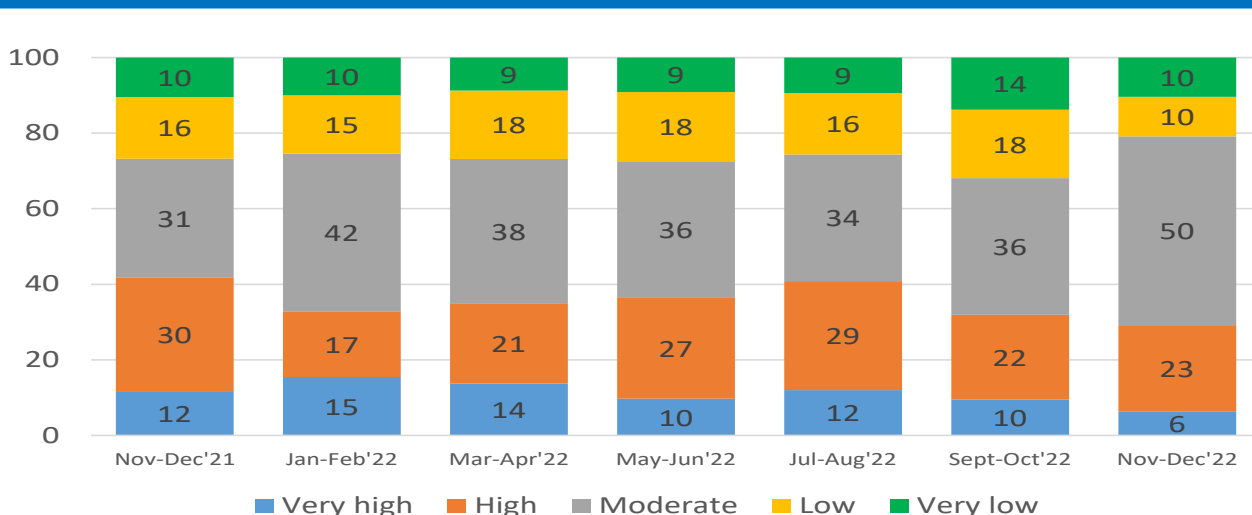


7.3. Expected demand for credit by non-bank private sector

The Survey requested non-bank private firms for an assessment of credit demand and their need for financing during the 2 months before the MPC meeting (i.e. September and October 2022), and their expectations for November and December 2022 (**Chart 5**).

43 percent respondents expected credit demand to increase in November and December as they sought to boost business finance and working capital requirements. In addition, 33 percent and 24 percent of respondents cited high inflation and increased demand for products as reasons for expected demand for credit in the next 2 months.

Chart 5: Expectations on Demand for credit from non-bank private firms 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).

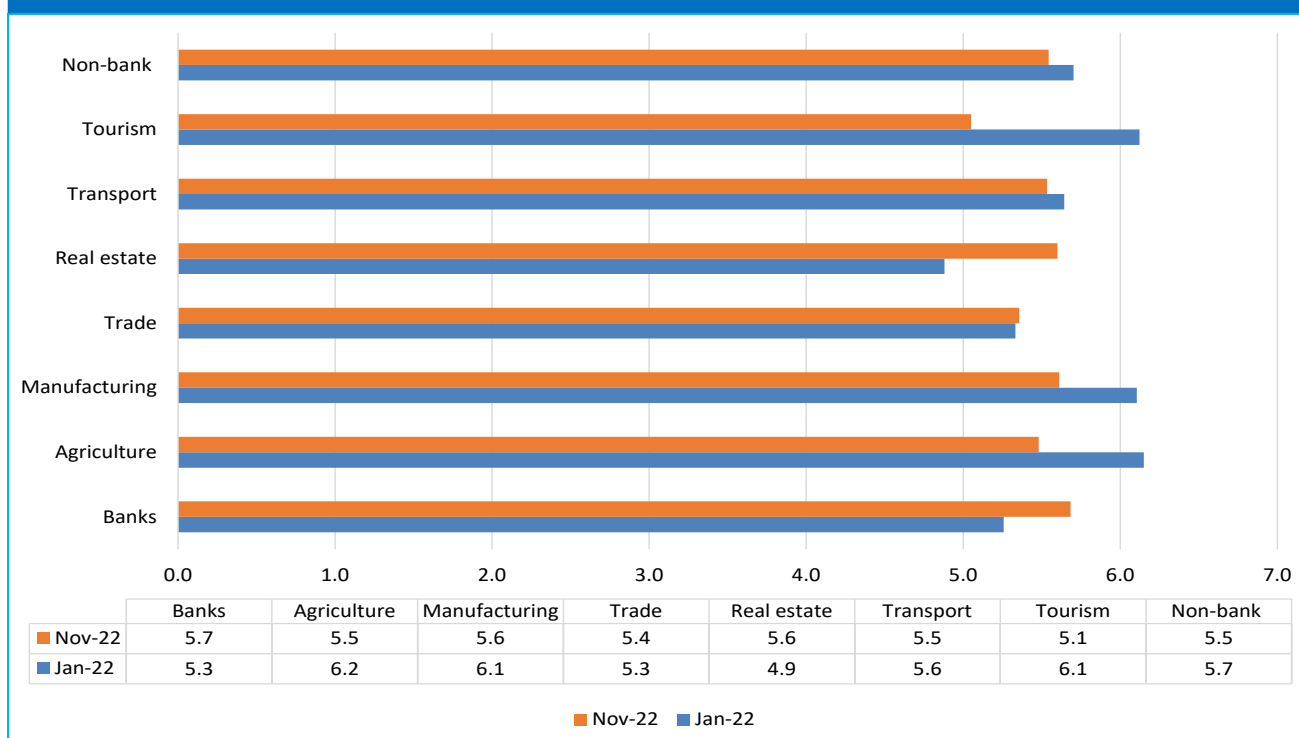
Respondents expected 2022 economic growth to remain resilient despite the underperforming agriculture and high inflation **(Charts 6 & 7)**.

83 percent of respondents expected economic growth for the remainder of 2022 to be supported largely by the services sector, while 47 percent respondents expected support to come from the

rebound in consumer activity post Covid and post elections. In addition, 30 percent of respondents cited the stronger credit growth as a reflection of resilience in business, and growth.

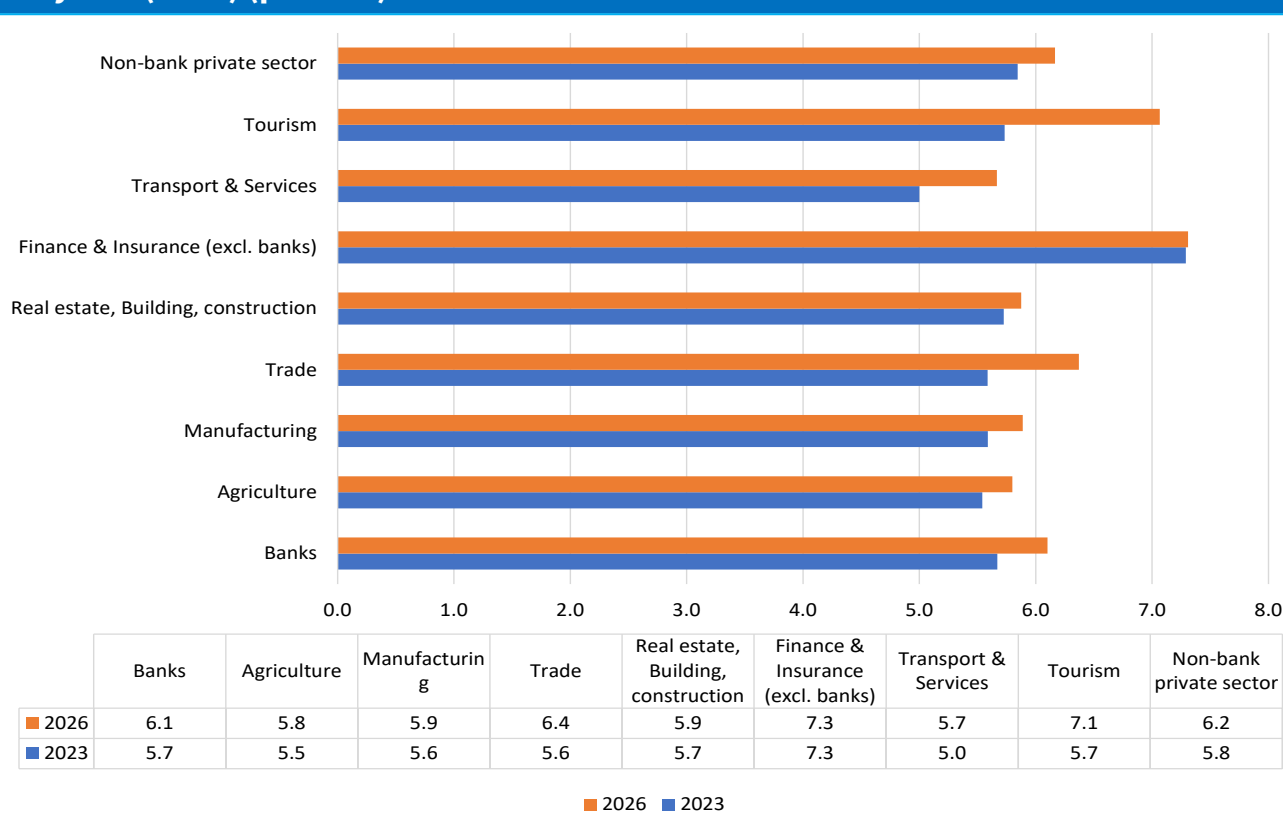
However, respondents highlighted some risks to growth expectations in 2022 including the underperformance of the agricultural sector, cited by 50 percent respondents, and high inflation lowering household consumption, high cost of goods largely due to higher fuel cost and raw material cost due to the war in Ukraine, also cited by 50 percent respondents.

Chart 6: Expectations on economic growth for 2022 (percent)



The medium-term outlook for economic growth was anchored on optimism, given the inherent strengths of the economy, its diversified nature, enterprising people, and innovative culture.

Chart 7: Expectations on economic growth for the next 2 years (2023) and the next 5 years (2026) (percent)



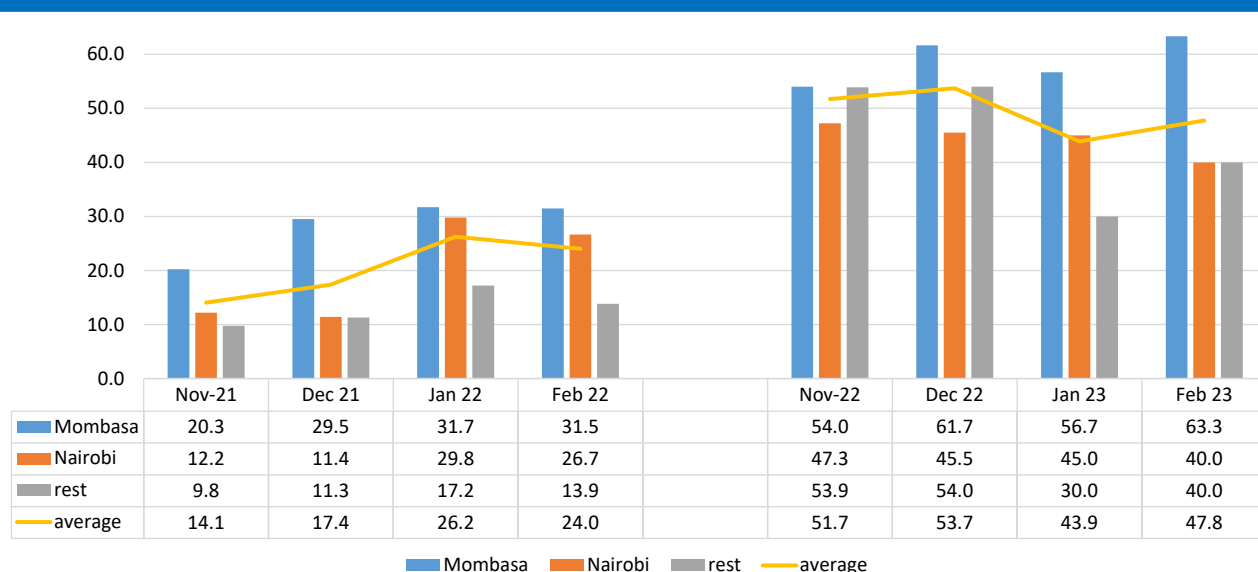
9. OPTIMISM ON THE ECONOMIC PROSPECTS

9.1. Forward hotel bookings

The Survey requested hotel respondents for forward bookings received so far for November, December, January, and February. Results

showed increased bookings largely attributed to Covid recovery, economic recovery, and resumption of international travel (**Charts 8**).

Chart 8: Forward hotel bookings (percent of bed capacity)



9.2. Optimism on economic prospects in the next 12 months

The Survey requested bank and non-bank 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 non-bank private sector firms (**Charts 9 & 10**).

Respondents attributed their optimism about the country's economic prospects to proactive government policies by the new government including the focus on MSMEs which is expected to bolster employment and incomes, and support consumption (47 percent respondents).

In addition, improved economic activity post elections and a resilient services sector were cited by 29 percent and 24 percent respondents, respectively, as reasons for increased optimism.

Chart 9: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)

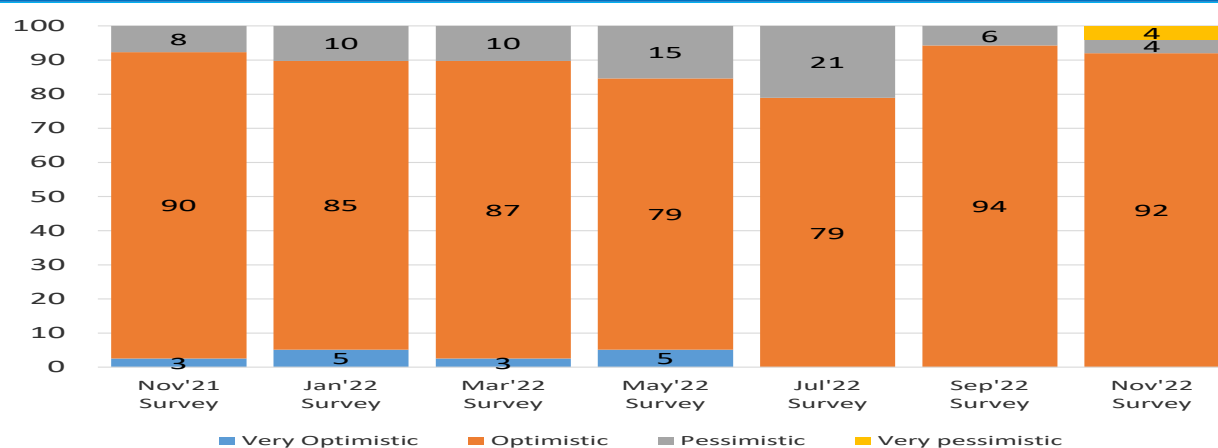
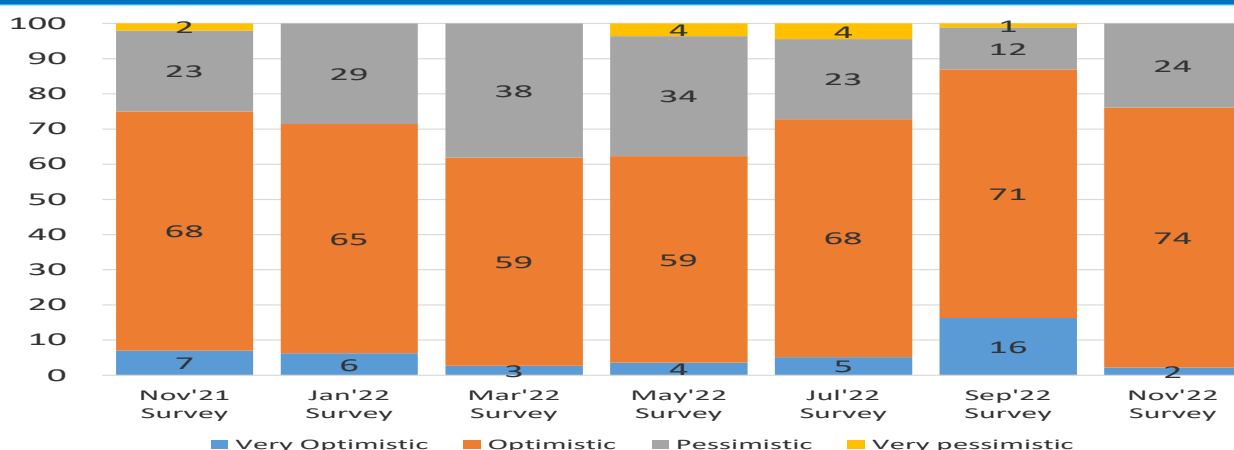


Chart 10: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



10. EXPECTED CHANGES IN EMPLOYMENT

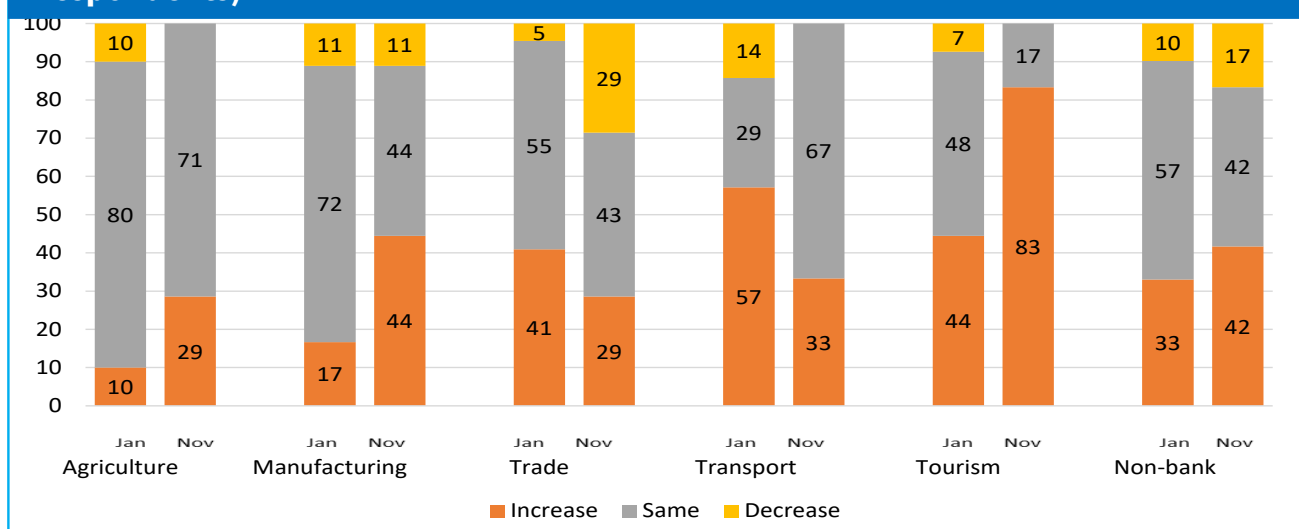
The Survey asked respondents to indicate their expectations regarding change in the number of employees in their respective institutions in 2022 relative to 2021. The results showed mixed employment expectations in 2022 relative to 2021 (**Chart 11**).

Respondents from the agricultural sector cited the onset of short rains, while hotel respondents cited post Covid recovery, increase in international and domestic tourism, and increased requirement for casuals during the high peak seasons as reasons for expected increase in hires in 2022 relative to 2021.

Respondents from the manufacturing sector cited improved business relative to last year, manpower required to meet business plans, and development of intellectual capital pool for business sustainability as reasons for expected increase in new hires.

In addition, respondents from the transport sector expected increased business due to festive season to require more hires. The trade sector respondents expected lower numbers in 2022 relative to 2021 despite the expected festive season increase in demand, which they expect to be seasonal, and not enough reason to justify new hires.

Chart 10: Expectations on employment levels for 2022 relative to 2021 (percent of respondents)



11. EXCHANGE RATE EXPECTATIONS

The Survey sought from bank and non-bank private sector firms their expectations regarding the direction of change in the exchange rate of the Shilling against the US Dollar in November and December 2022.

Respondents expected support for the Shilling to come from diaspora remittances and increased

investor confidence after a peaceful election.

However, respondents expected the stronger US Dollar and higher import bill, relatively high energy prices, and rate hikes in developed markets to put some pressure on the local currency.

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 acceleration of approvals for risk-based pricing models and requests for new or revised products for banks, commitment by the national and county governments to settle their pending bills to spur demand for credit and lower NPLs, and increased efforts in the fight against corruption could improve the business environment.

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 would improve business environment for the sector.

Non-bank private firms on the other hand suggested review of taxation policies, provision of low interest credit facilities by banks, lower money transfer charges, incentives to industries such as tourism, and introduction of incentives for both foreign and local investors especially in the manufacturing and tourism sectors.

In addition, respondents suggested that prompt settlement of pending bills to suppliers by the national and county governments would enhance cash flows and in turn facilitate expansions and thus job creation.



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