Central Bank of Kenya

Market Perceptions Survey

July 2023

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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 Survey. 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 July 2023 MPC 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 (May and June 2023), and expectations for the next two months (July and August 2023), the next one year (July 2023 – June 2024), the next two years (July 2023 – June 2025), and the next five years (July 2023 – June 2028).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 2023. 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 July 2023 Survey was 65 percent of the sampled institutions. The respondents comprised 38 commercial banks, 13 micro-finance banks, and 178 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 July 2023 Market Perceptions Survey included:

1. About 80 percent of respondents expect improved food supply to moderate food prices and inflation in the next two months.

2. Moderate economic activity is expected in July and August compared to May and June, but more optimism for medium term growth than in the May survey.
3. Banks and non banks expect economic growth to be resilient in 2023, on account of improved agricultural output. However, high cost of living, impact of tax measures and political noise pose risks to this outlook.
4. The survey indicates mixed expectations by banks and non-banks on new hires (employment) in 2023 compared with 2022.
5. Banks expect resilient growth in private sector credit in 2023 mainly supported by increased short-term borrowing to reduce financial constraints in businesses and households but cited concerns about the high cost of credit.
6. Most respondents remained optimistic in the country's economic prospects for the next 12 months, but there are concerns.
7. Forward hotel bookings have remained strong.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to indicate their expectations of overall inflation rates for the next 2 months (July and August 2023), the next 12 months (July 2023 – June 2024), the next two years (July 2023 – June 2025), and the next five years (July 2023 – June 2028) **(Table 1, 2 & 3).** Respondents expected inflation to remain elevated in the next two months, and to decline in the next 12 months.

In total, 87 percent of the respondents expected pressure on inflation to come from the impact of VAT increase on petroleum products, electricity tariffs and input costs. In addition, 54 percent of the respondents expect the weakening of the local currency to lead to expensive imports and elevated inflation.

Nevertheless, about 80 percent of the respondents expect improved food supply to moderate food prices and inflation in the next two months.

Table 1: Inflation expectations for July and August 2023 (percent)

Survey month	Expected Inflation for next 2 months	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms	Actual inflation
March '22	Mar-Apr 2022	5.4	5.7	5.7	5.5	5.5	5.9	5.6
May '22	May-Jun 2022	7.1	6.9	6.8	7.1	6.7	7.2	7.1
July '22	Jul-Aug 2022	8.2	8.1	7.9	8.1	7.9	7.5	8.3
September '22	Sep-Oct 2022	8.6	8.7	8.7	8.7	8.5	8.2	9.2
November '22	Nov-Dec 2022	9.8	9.7	8.7	9.7	9.6	9.4	9.5
January '23	Jan-Feb 2023	8.9	9.1	9.0	9.0	9.0	8.8	9.0
March '23	Mar-Apr 2023	8.0	8.1	7.8	8.0	8.0	7.8	9.2
May '23	May-Jun 2023	7.7	7.9	7.9	7.8	7.9	7.6	8.0
July '23	Jul-Aug 2023	8.0	8.1	7.8	8.0	8.0	7.8	7.3

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

INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS						
Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
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
Jan'23 Survey	7.2	7.2	7.6	7.2	7.4	7.1
Mar'23 Survey	7.2	7.5	7.6	7.3	7.7	7.6
May'23 Survey	7.4	7.6	7.5	7.4	5.0	6.5
Jul'23 Survey	7.2	7.0	7.0	7.2	7.2	6.9

In the medium term, respondents expect inflation to remain within the target band supported by improved food supply from the harvest season which is expected to partially offset the impact of additional taxation. However, respondents expect inflationary pressure due to the implemented VAT measures to be felt until the end of June 2024, and high energy and food prices to exert pressure on inflation in the medium term.

Table 3: Inflation expectations for the next 2 and 5 years (percent)

INFLATION EXPECTATIONS FOR THE NEXT 2 AND 5 YEARS						
Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
Next 2 years	6.5	6.4	6.2	6.5	6.7	6.1
Next 5 years	6.1	5.7	5.5	6.0	5.8	5.4

Inflation is expected to be within the target band in the next two to five years.

6. ECONOMIC ACTIVITY

The July 2023 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in May and June 2023, and their expectations for July and August 2023. Over 79 percent of the bank respondents and just about 52 percent non-bank respondents expect moderate to strong economic activity in July and August **(Chart 1 & 2).**

In total, 88 percent and 75 percent respondents, respectively, expect economic activity to be supported by recovery in agriculture following the near to above average rainfall in various parts of the country and resilience in the services sector.

However, the following risks to economic activity were identified in July and August: high cost of living and subsequent reduction in purchasing power (79 percent); high interest rates especially on government instruments which could crowd out private sector investments (58 percent); high cost of borrowing and political noise leading to business slow down (46 percent).

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

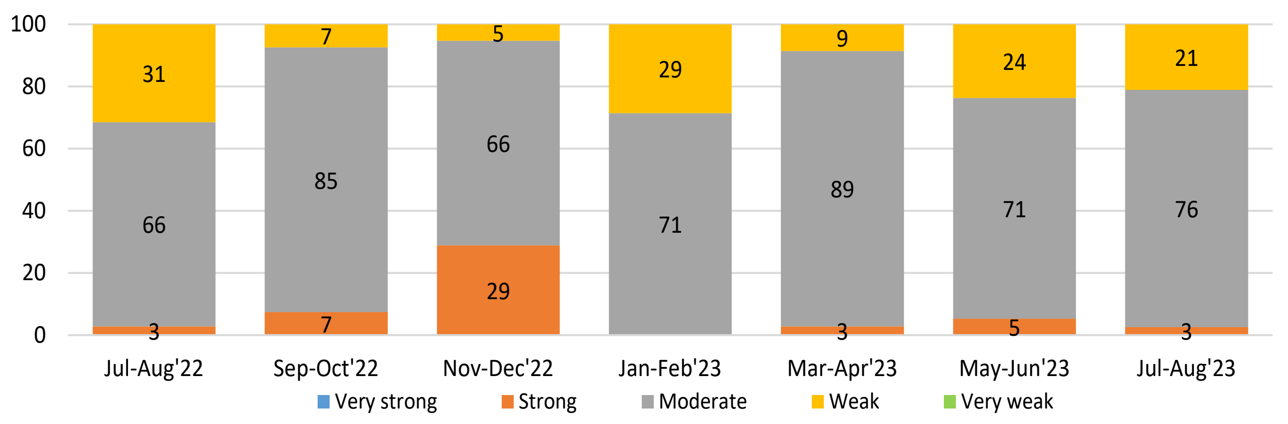
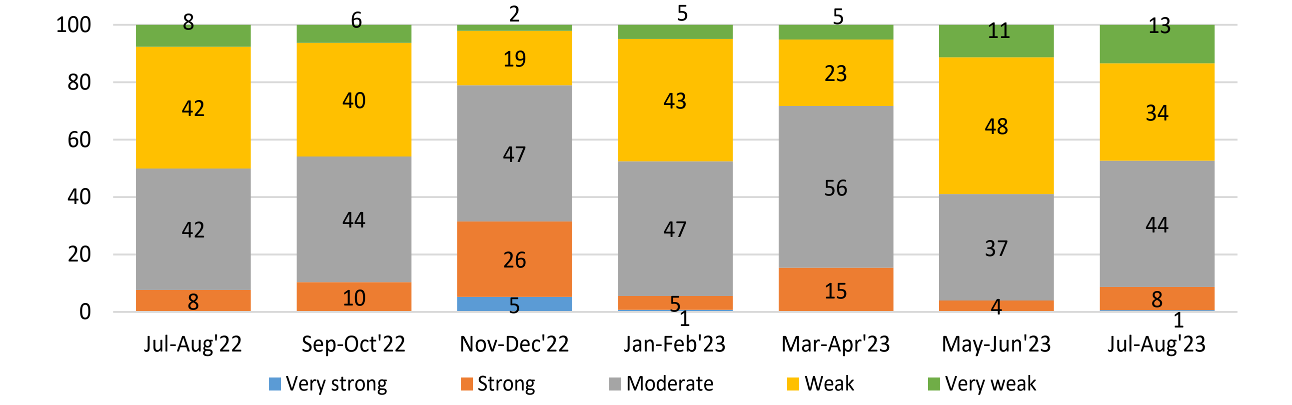


Chart 2: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1 Growth in private sector credit by end December 2023

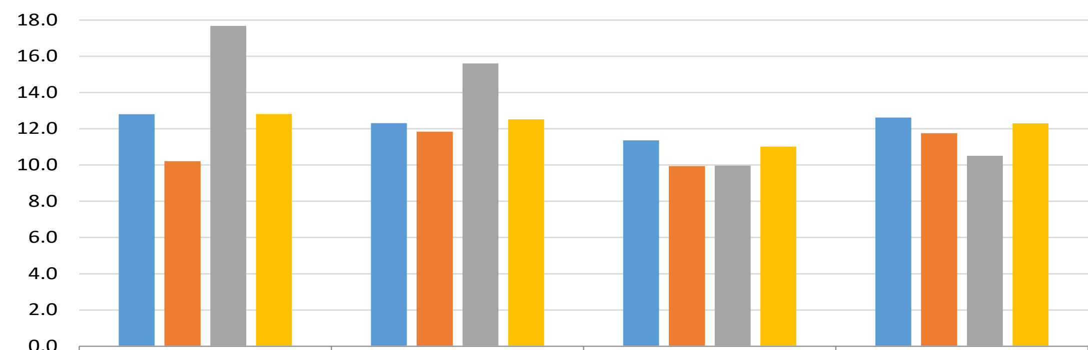
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector by end of December 2023 compared to December 2022. Respondents expected sustained increase in private sector credit growth in 2023 relative to 2022 **(Chart 3).**

About 79 percent of the respondents expect private sector credit growth to be supported by increased credit demand from the market to finance business needs, capital projects and working capital, and to meet personal commitments in an environment of elevated inflation.

Additionally, 62 percent of the respondents expect credit growth to reflect economic growth outlook which remains strong and resilient despite multiple crises including global financial conditions, fuel, and food price shocks.

However, risks to private sector credit growth included higher lending rates, which were expected to increase caution in lending by banks to minimize default risk.

Chart 3: Expectations on private sector credit growth 2023 (percent)



	January	March	May	July
Large banks	12.8	12.3	11.4	12.6
Medium banks	10.2	11.8	9.9	11.8
Small banks	17.7	15.6	10.0	10.5
All banks	12.8	12.5	11.0	12.3

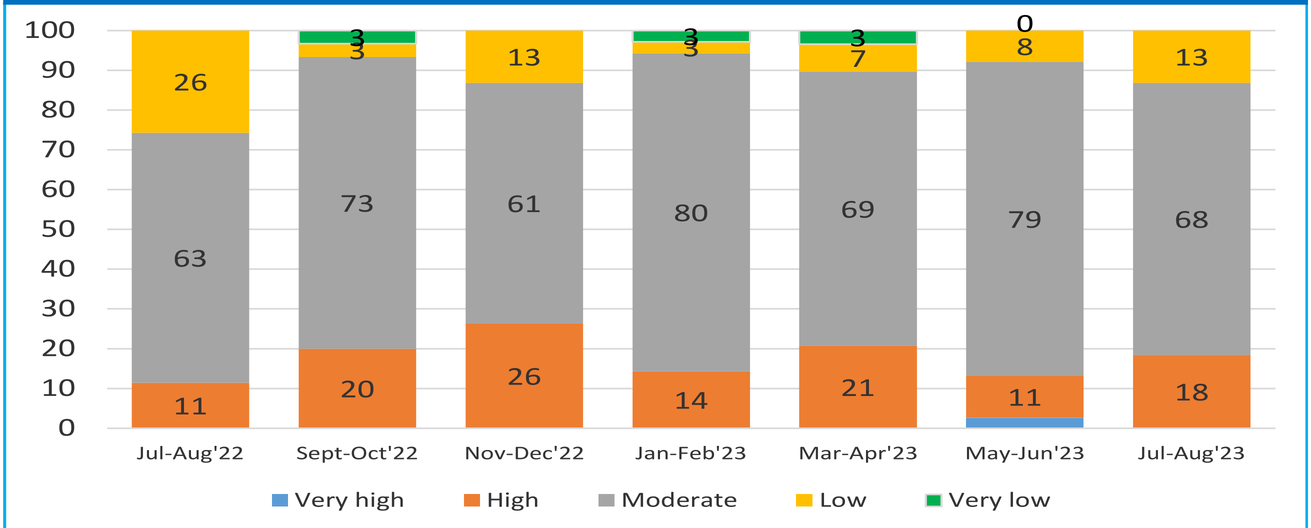
7.2. Expected demand for credit by banks

The Survey requested bank respondents for their assessment of credit demand during the two months before the MPC meeting (i.e., May and June 2023), and their expectations for July and August 2023 **(Chart 4).**

About 86 percent of bank respondents expected demand for credit to remain moderate to high on account of increased need for working capital requirements, and demand from household sector looking to bridge the high cost of living and cover any shortfalls with the onset of the new taxes.

However, 50 percent of the respondents expect the rising interest rates to marginally reduce consumer demand for credit and limit businesses to borrow only for sustenance, while 44 percent of the respondents expect pressure on disposable incomes due to increased taxation and inflationary pressures to impact negatively on demand for credit.

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



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

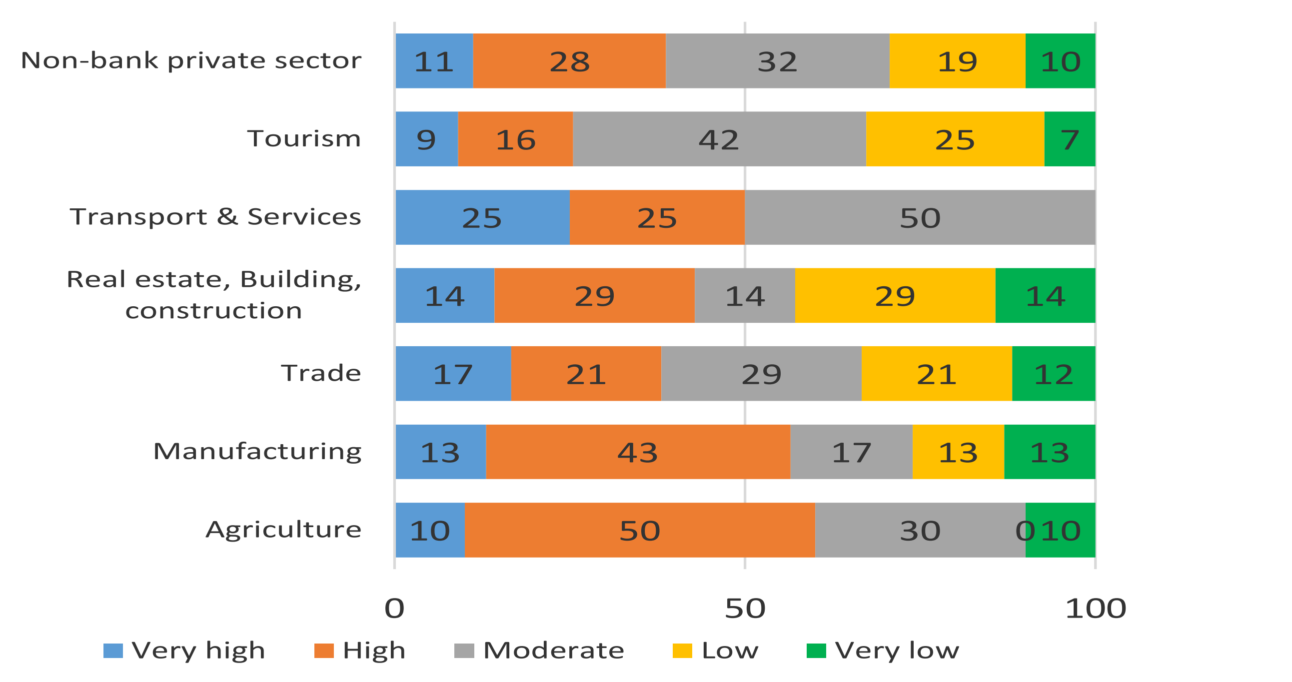
The Survey requested non-bank private firms for an assessment of their need for financing for the next 12 months (July 2023 – June 2024), compared to the last 12 months (July 2022 – June 2023). The Survey results showed that non-bank private sector firm respondents expect moderate to high demand for credit in the next 12 months **(Chart 5).**

Respondents in the tourism sector indicated that credit demand would be needed to cater for running expenses. Demand for credit for the agricultural sector could emanate from the high cost of inputs while that of the manufacturing sector could arise from the need to import critical inputs due to shortages experienced locally and high cost of inputs.

In addition, the construction sector respondents indicated their need to fund working capital, while wholesale and retail trade sector respondents cited reduced demand, low consumer purchasing power, low sales, rising cost of goods and services and the need to recapitalize as reasons for their credit demand.

Finally, the transport sector respondents cited strained working capital due to pending bills by Government and low purchasing power as reasons affecting their demand for credit.

Chart 5: Expectations on Demand for credit by non-bank private firms (percent of respondents)



8. EXPECTED ECONOMIC GROWTH

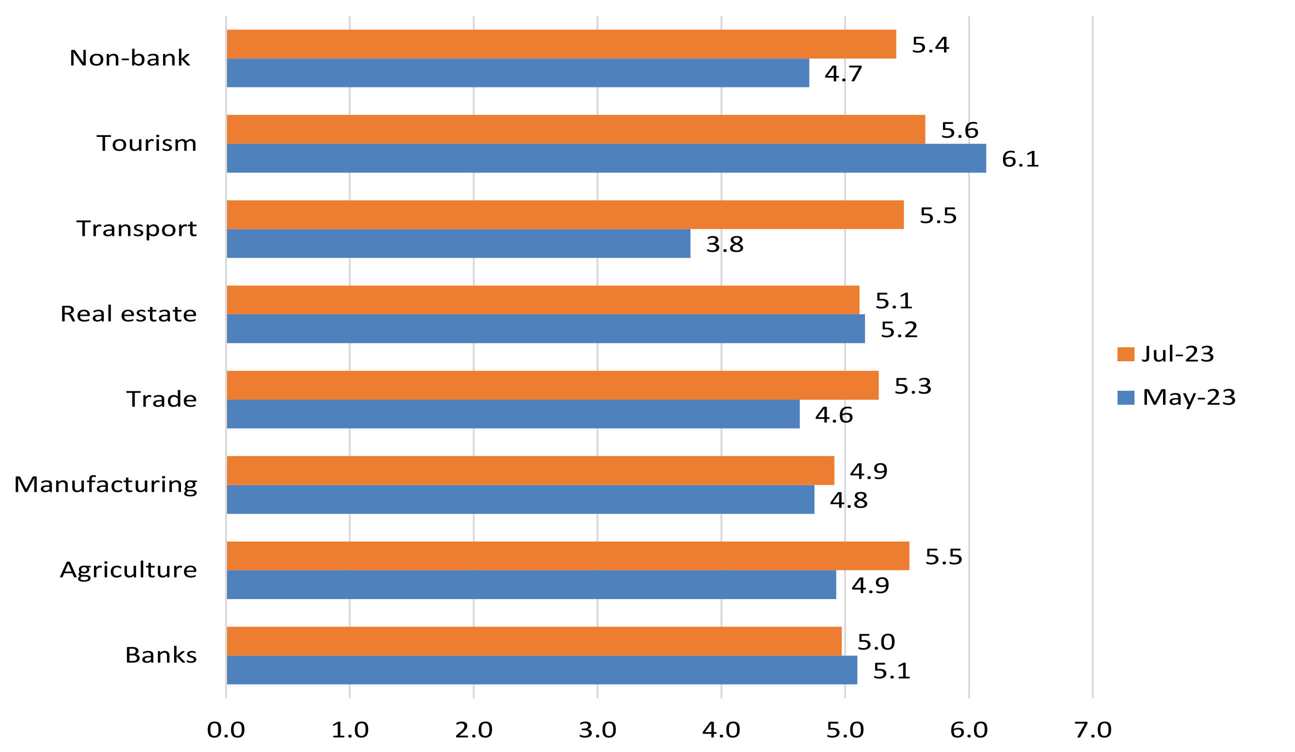
The Survey requested participants to indicate their estimated economic growth rates for the country in 2023, in the next 2 years (2024), and in the next 5 years (2027).

Respondents expect economic growth to remain resilient in 2023, despite concerns about risks of high cost of living among others. The respondents in some key sectors expect higher growth in 2023 than they expected during the May 2023 survey **(Charts 6 &7).**

About 90 percent of the respondents expect economic growth in 2023 to be supported by recovery in agriculture following improved weather conditions while 70 percent respondents expect a strong services sector supported by a resilient private sector and diversified economy to support economic growth in 2023.

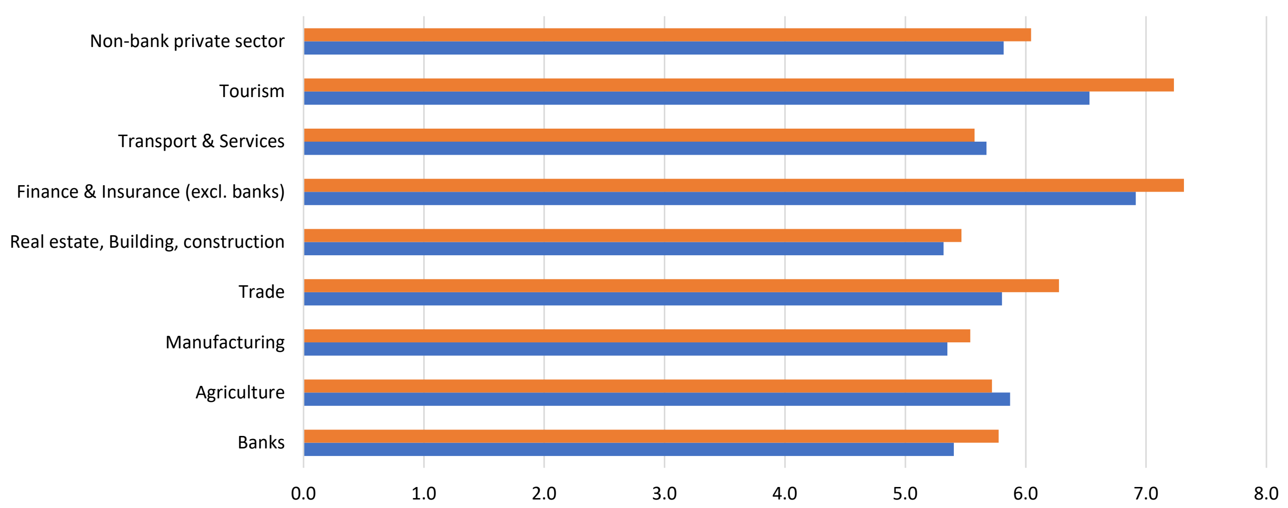
However, risks to growth expectations in 2023 included high cost of living arising from high food and energy prices, increased taxation and statutory deductions and high interest rates and related loan repayment costs, political noise and subdued global economic activity.

Chart 6: Expectations on economic growth for 2023 (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 and the next 5 years (percent)



	Banks	Agriculture	Manufacturing	Trade	Real estate, Building, construction	Finance & Insurance (excl. banks)	Transport & Services	Tourism	Non-bank private sector
Next 5 yrs	5.8	5.7	5.5	6.3	5.5	7.3	5.6	7.2	6.0
Next 2 yrs	5.4	5.9	5.4	5.8	5.3	6.9	5.7	6.5	5.8

9. OPTIMISM ON THE ECONOMIC PROSPECTS

9.1. Hotel forward bookings

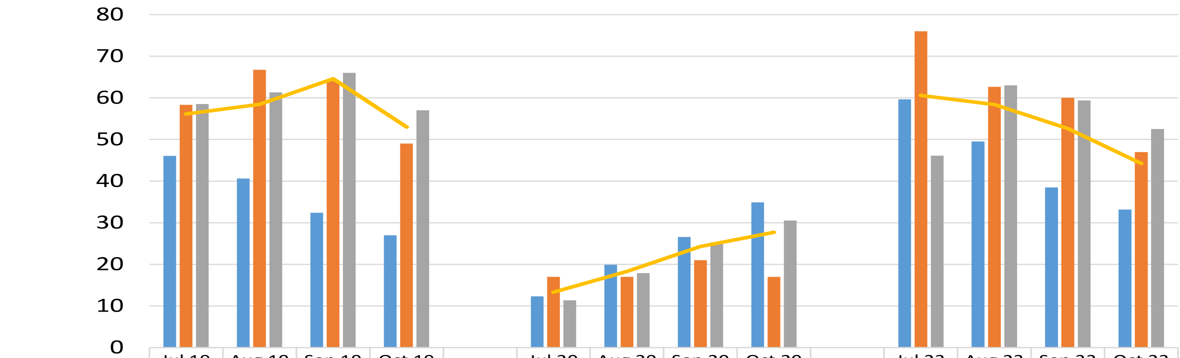
The Survey requested hotel respondents to indicate forward bookings received so far for July, August, September, and October. Results show that forward bookings had reached the pre-Covid levels **(Chart 8).**

Respondents indicated that forward bookings were supported by both foreign and domestic markets, but that most bookings were by foreigners given the peak July – October season.

However, respondents indicated that international forward bookings had developed a shorter turnaround period, from about 90-120 days lead time, to about 14 days, due to organizational travel funding issues.

Most local guests mostly walk-in to hotels without prior bookings.

Chart 8: Hotel forward bookings (July – October 2023)



	Jul 19	Aug 19	Sep 19	Oct 19	Jul 20	Aug 20	Sep 20	Oct 20	Jul 23	Aug 23	Sep 23	Oct 23
Mombasa	46	41	32	27	12	20	27	35	60	50	39	33
Nairobi	58	67	64	49	17	17	21	17	76	63	60	47
rest	59	61	66	57	11	18	25	31	46	63	59	53
average	56	58	65	53	13	18	24	28	61	58	53	44

9.3. 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. Compared with the May Survey, the results showed moderate optimism in the country's economic prospects **(Charts 9 & 10).**

Respondents were optimistic about the country's economic prospects on account of recovery in the agricultural sector following improved weather conditions in most parts of the country and the resilience of Kenya's private sector.

The reason for the tempered optimism included the high cost of living, with implementation of the new tax and levies and political noise that could impact negatively on investment.

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

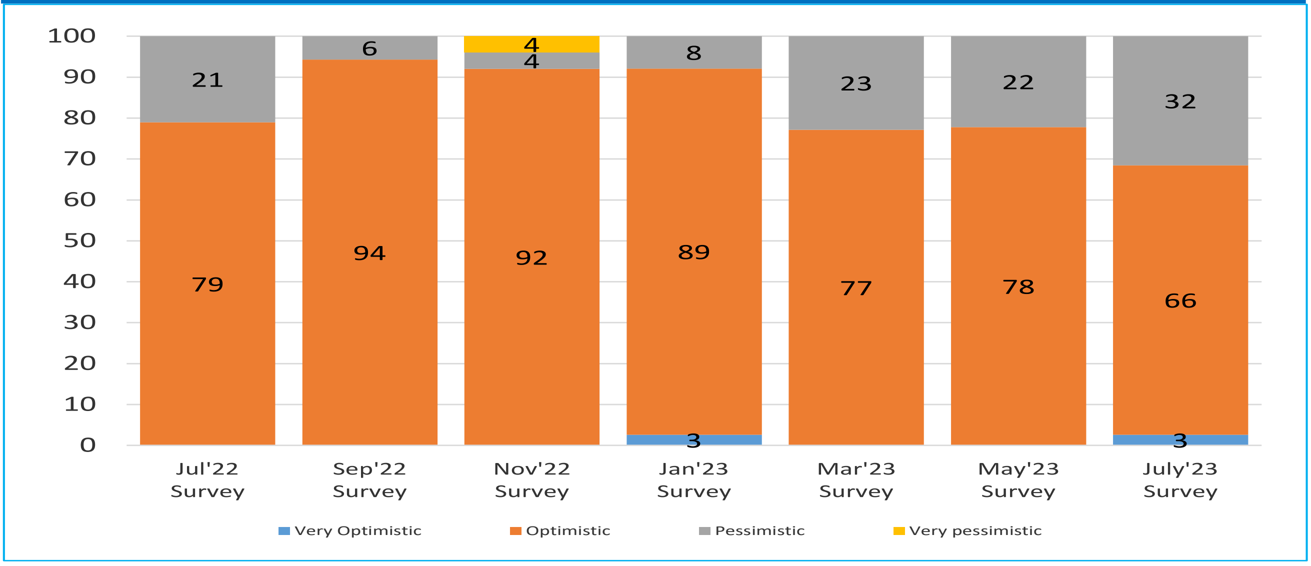
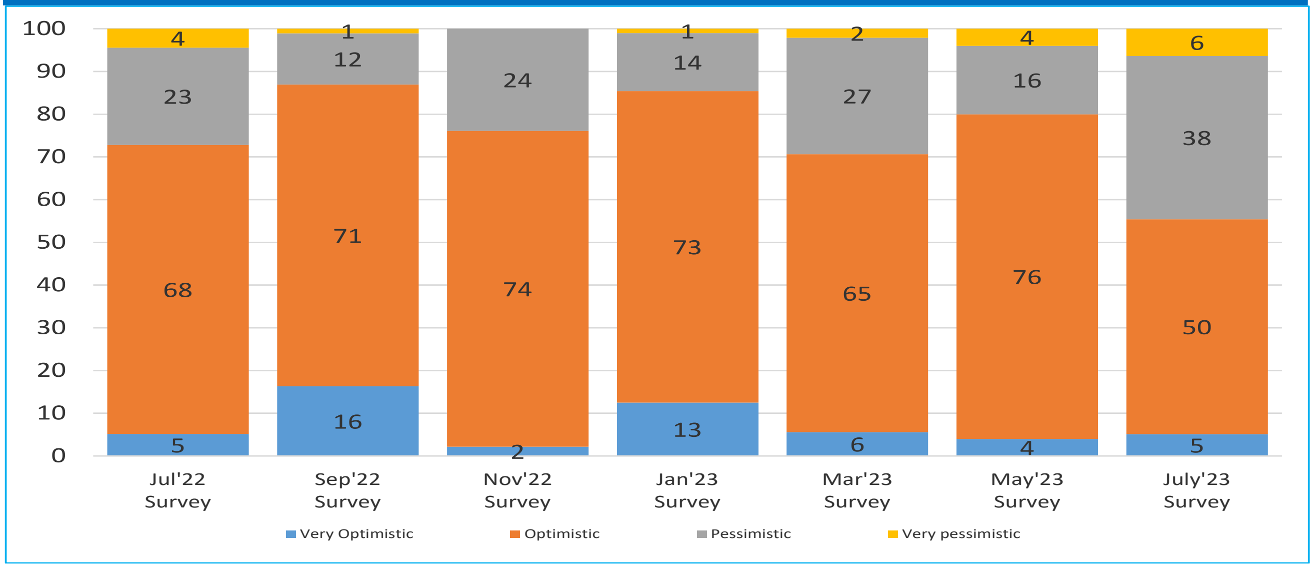


Chart 10: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



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 2023 relative to 2022. Results showed mixed expectations by banks and non-bank respondents **(Charts 11 & 12).**

Bank respondents expect to increase employment in 2023 relative to 2022 to support the planned business growth and bank functions to fulfil strategic objectives.

Non-bank respondents were however more cautious about creating new jobs due to low business turnover, expected low production volumes, harsh economic environment, high cost of living and the need to optimize the existing workforce to contain operational costs, and high cost of production due to increase in prices and, in some cases, scarcity of inputs.

Chart 11: Expectations on employment levels by banks for 2023 relative to 2022 (percent of respondents)

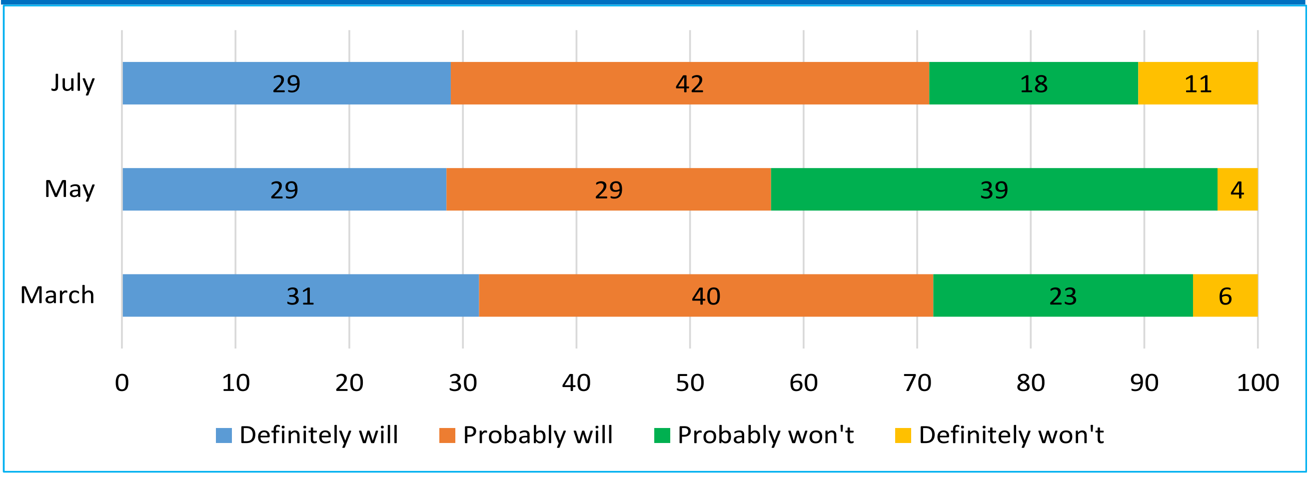
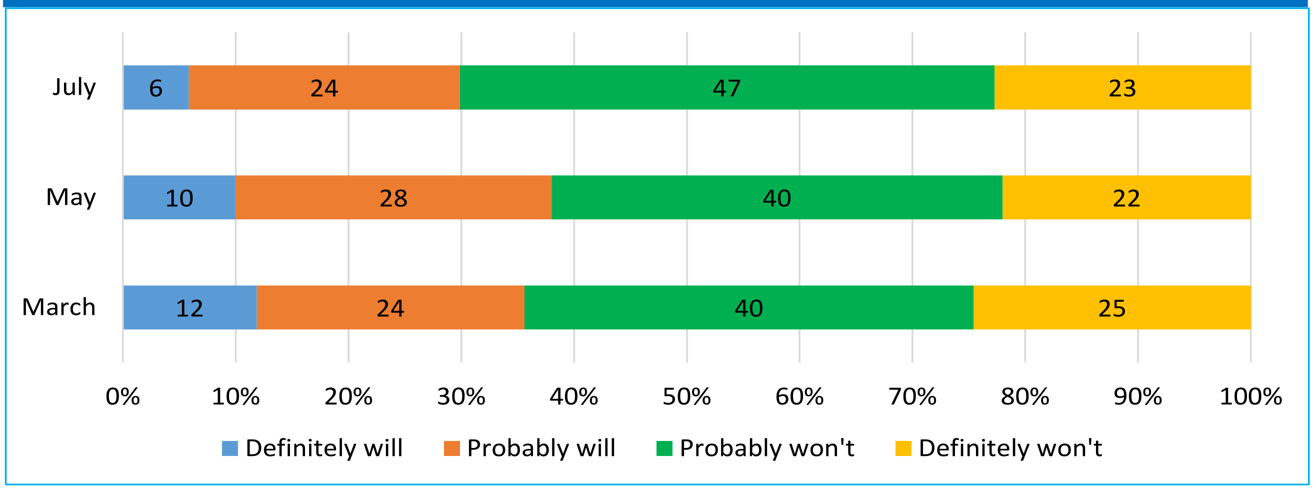


Chart 12: Expectations on employment levels by non-bank private sector for 2023 relative to 2022 (percent of respondents)

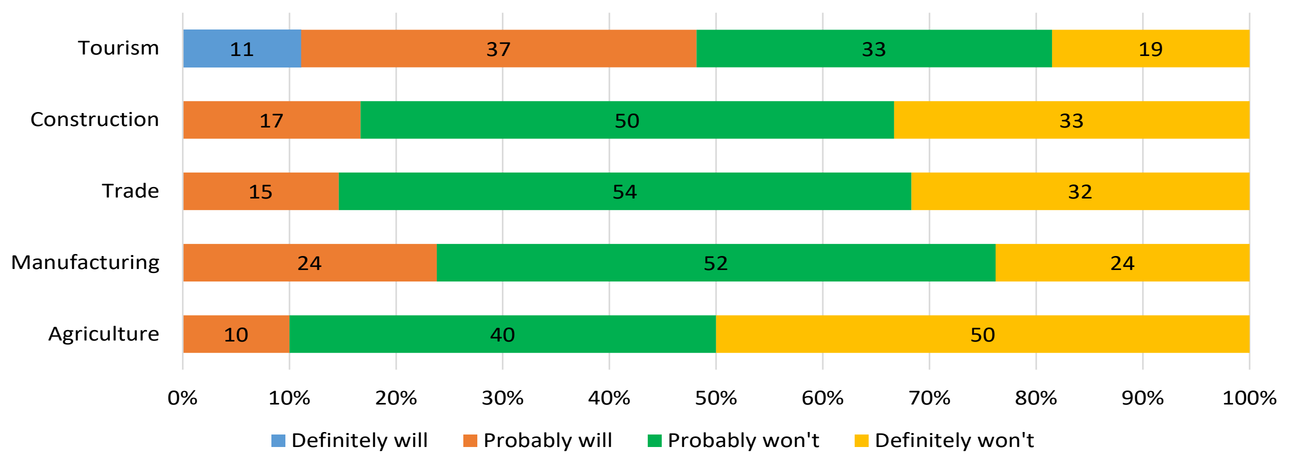


The agricultural and manufacturing sectors attributed the lower new hires to increased cost of production, and to low business volumes, to concerns about the levels of demand, increase in cost of production, and lack of raw materials such as maize which has led to temporary shutdown of mills.

Additionally, the construction sector cited the need to optimize the existing workforce to contain operational costs and increased cost of inputs and imports, while the trade sector cited low business and sales, slower market absorption of products, low demand and depressed revenues as reasons for the low expected new hires.

The tourism sector however, expected a pick-up in business and a stable economy in 2023 **(Chart 13).**

Chart 13: Non-bank expectations of new hires by sector (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 July and August 2023.

Respondents expected support for the Shilling to come from healthy diaspora remittances, reduced dollar demand as a result of the government to government oil deal, collaboration between the CBK, banks and brokers in managing flows and pricing and drawdowns from the IMF, the World Bank, and prospects of syndicated external loans.

However, some respondents expected pressure on the shilling from sustained demand from importers and continued US dollar strength due to its strong yield and safety appeal.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested a number of interventions to improve credit growth and the business environment. These included 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.

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 SMEs would further improve business environment.

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, provision of incentives to industries such as tourism, and introduction of favourable policies and incentives for both foreign and local investors especially in the manufacturing and tourism sectors as measures that would improve the business environment.

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