



**Central Bank of Kenya**

# **Monetary Policy Committee Market Perceptions Survey**

January 2021





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## 1. BACKGROUND TO THE MARKET PERCEPTIONS SURVEYS

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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 January 2021 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 (November and December), and expectations for the next two months (January and February), the next one year (January – December 2021), two years (January 2021 – December 2022), and five years (January 2021 – December 2025).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector lending for the next one year. 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, expectations regarding employment levels and the impact of the COVID-19 pandemic. 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, through questionnaires sent in hard copy and by email. The overall response rate to the January 2021 Survey was 66 percent of the sampled institutions. The respondents comprised 38 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 158 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 takeaways from the January 2021 Market Perceptions Survey included:

- Optimism in the country's economic prospects has increased further with the re-opening of learning institutions. In particular, 93 percent of banks and 74 percent of non-bank respondents were optimistic on the economic prospects in 2021.
- Respondents expect economic activity to increase in January and February. In the Survey, 98 percent of banks and 76 percent of non-bank respondents expected moderate to strong economic activity in January and February 2021, compared to only 82 percent and 69 percent, respectively, in November and December 2020.
- Employment rate was expected to increase in 2021 as the business environment improved and as demand in economy normalises.
- Banks expect an increase in private sector credit growth in 2021, with expected recovery of key sectors affected by COVID-19 and Government policy interventions including the operationalisation of a Credit Guarantee Scheme for the MSMEs.
- Inflation expectations remain anchored, with both bank and non-bank respondents expecting overall inflation to remain within the target range in January and February 2021.

## 5. ECONOMIC ACTIVITY

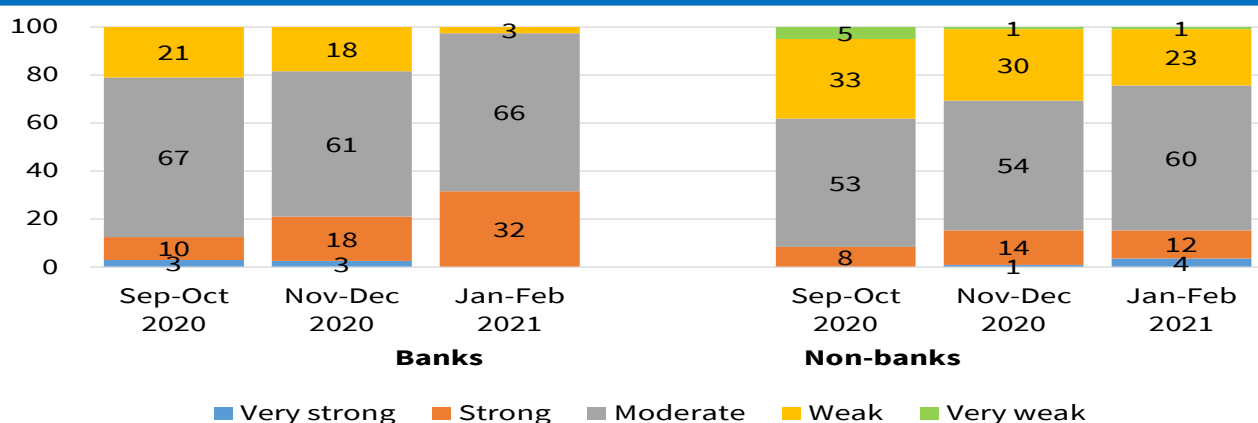
The January 2021 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in November and December 2020, and their expectations for January and February 2021. Respondents reported improved economic activity in November and December 2020 and expected a further improvement in January and February 2021 (**Chart 1**).

In this Survey, 91 percent of respondents indicated that the re-opening of schools was expected to increase consumption across the value chain and boost activity in the education and other supporting sectors such as transport, retail trade and financial services. This is expected to signal a return to normalcy for most economic activities. Additionally, 70 percent of respondents pointed out that the decline in COVID-19 infections and expectations of a COVID-19 vaccine, would improve business confidence and boost economic activity. Further, 42 percent of respondents expected a resumption of businesses that had stalled during

the pandemic, while 42 percent expected a pick-up following the festive season. With regard to tourism and agriculture, 40 percent of respondents expected activity to increase as a result of eased movement and travel restrictions and favourable weather conditions respectively.

Respondents, however expected economic activities to be moderated by any escalation of COVID-19 infections as new variants emerge, the extension of curfew hours, and reduced disposable income following implementation of tax reversals in January 2021.

**Chart 1: Perceived and expected economic activity (percent)**



## 6. EXPECTED CHANGES IN EMPLOYMENT

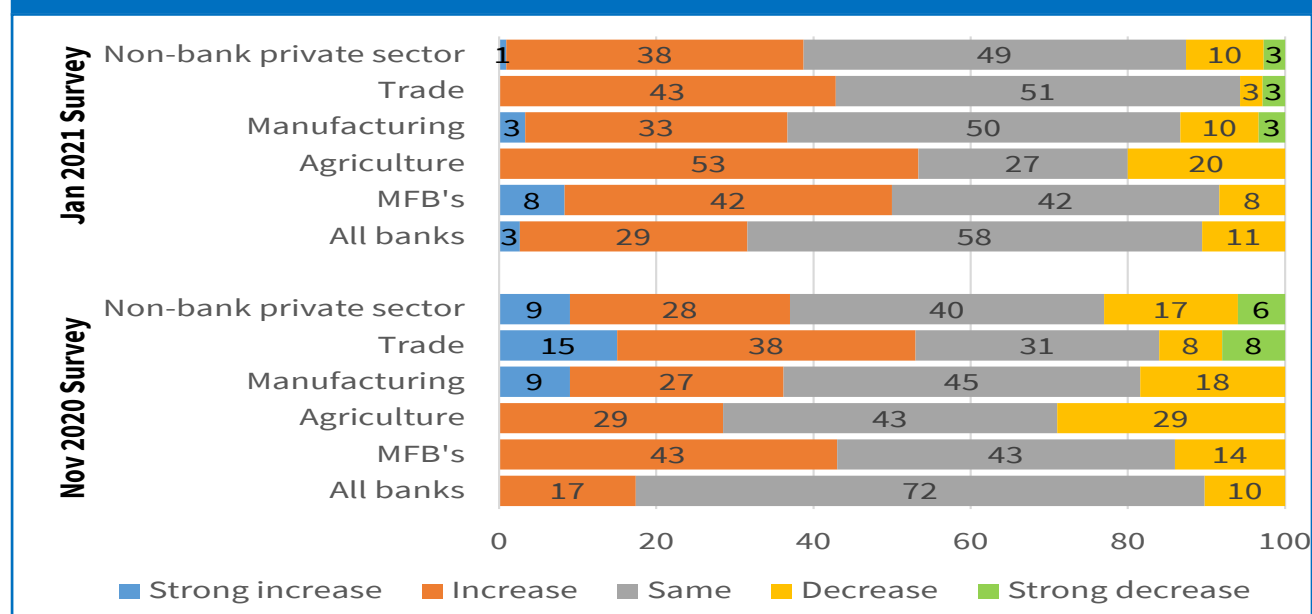
The Survey asked respondents to indicate their expectations with regard to changes in the number of employees in their respective institutions in 2021 relative to 2020. Respondents expected an increase in the number of people employed in 2021 relative to 2020 (**Chart 2**).

Reasons given for the expected increase in staffing levels included strong business prospects expected

with increasing demand following easing of COVID-19 containment measures, improved market optimism, expected increase in Government spending on development infrastructure and expected increase in economic activity.

However, some companies expect to leverage on ICT and therefore maintain the current staffing levels.

**Chart 2: Expected changes in employment levels in 2020 (percent)**



## 7. EXPECTED ECONOMIC GROWTH

The Survey requested participants to indicate their estimated economic growth rate for the country in 2020, and expected growth rate in 2021.

### 7.1. Economic growth expectations for 2020

Growth expectations varied across banks and non-bank private sector firms, all of which expected a lower growth in 2020 relative to 2019, largely due to the impact of the COVID-19 pandemic and the containment measures (Table 1).

However, respondents indicated that support to growth in 2020 came from the strong performance in agriculture, and resilience in construction, financial services and ICT sectors.

Respondents expected the 2020 growth outcome to be boosted by recovery in manufacturing, transport and trade in the second half of 2020 after the easing of COVID-19 restrictions.

**Table 1: Expectations on economic growth for 2020 (percent)**

Survey month	Large banks	Medium banks	Small banks	All banks (Weighted by size of bank)	Micro-finance banks	Non-bank private firms
Jan-20	5.6	5.8	5.5	5.6	5.5	5.5
Mar-20	5.2	5.3	5.3	5.2	5.6	5.3
May-20	1.4	1.6	2.8	1.6	2.7	2.9
Jul-20	1.2	2.7	2.9	1.7	3.6	2.0
Sep-20	1.2	2.7	2.8	1.6	3.1	2.3
Nov-20	1.2	3.2	2.4	1.6	2.3	2.1
Jan-21	1.1	2.1	2.5	1.4	1.9	1.4

### 7.2. Economic growth expectations for 2021

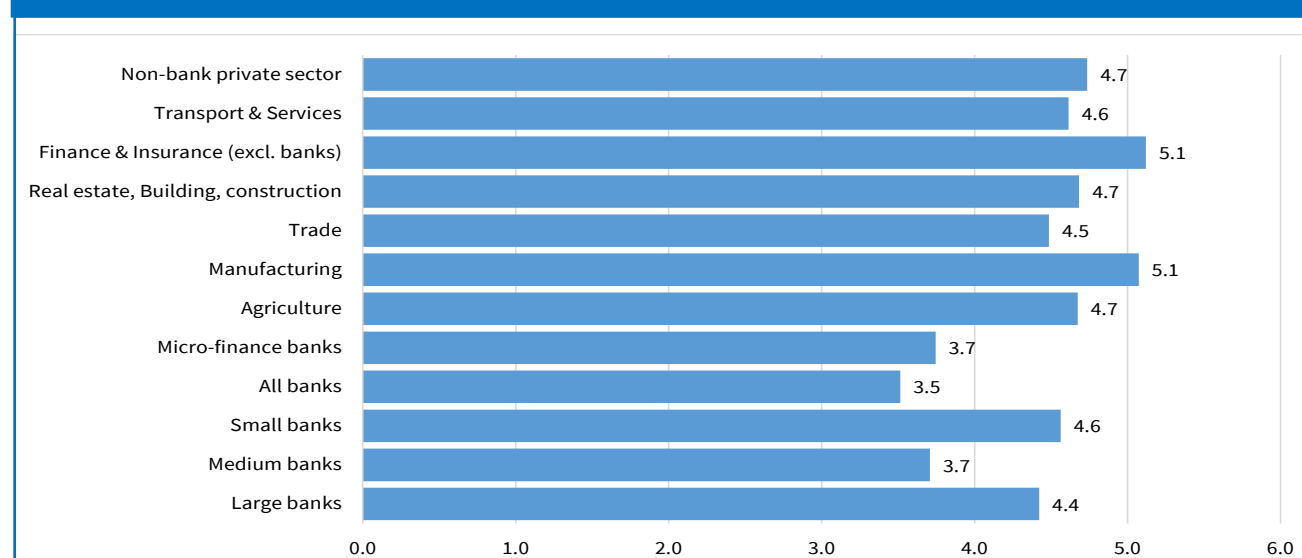
Respondents expected economic growth to rebound in 2021, with recovery expected across all the sectors and pegged to the COVID-19 vaccine, which they expected to be widely available by mid-2021 (Chart 3).

Respondents cited favourable weather, rebound of the global economy, improved business sentiments

in the domestic economy, increased credit to the private sector and reopening of schools as reasons for the expected increase in growth.

However, respondents expected growth to remain below the pre-pandemic levels due to the lingering effects of the pandemic locally and globally, slow recovery of sectors such as tourism due to the slow roll-out of the vaccines, and political noise.

**Chart 3: Expectations on economic growth for 2021 (percent)**



## 8. OPTIMISM ON THE ECONOMIC PROSPECTS

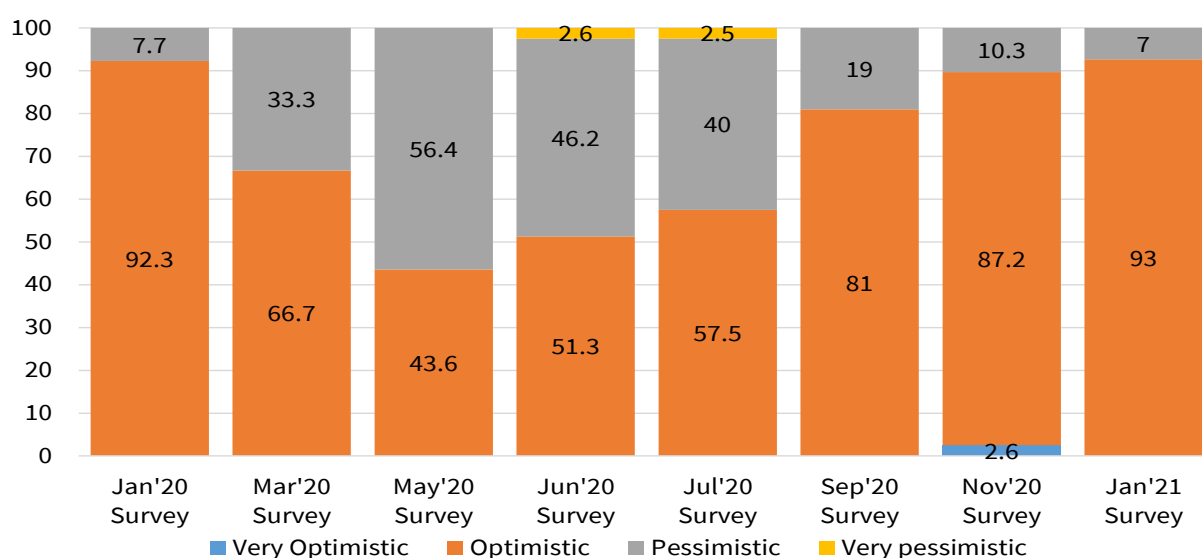
The January 2021 Survey requested bank and nonbank private sector firms to indicate how optimistic/ pessimistic they were regarding the country's economic prospects in the next 12 months. The results showed improved optimism by respondents across banks and nonbank private sector firms (**Charts 4 and 5**).

Bank respondents revised upwards their optimism in economic prospects citing, the vaccine roll out abroad and Government's continued commitment

to manage the virus situation in the country including ordering vaccine, implementation of the FY2020/21 Budget, including the Economic Stimulus Program and other programs to youth and vulnerable groups and the favourable weather conditions supporting improved agricultural production.

However, respondents pointed out the emergence of new coronavirus waves and political noise locally as risks to this optimism.

**Chart 4: Optimism by banks on economic prospects (percent)**



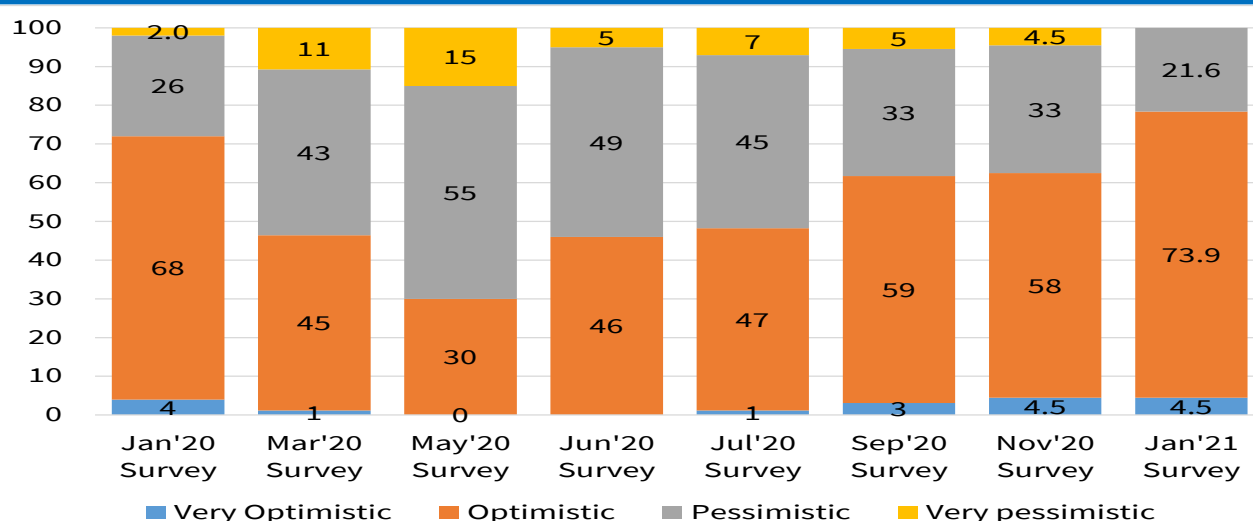
Similarly, non-bank private sector respondents expressed improved optimism in the January 2021 Survey largely due to rising business confidence following easing of Covid-19 containment measures, proactive Government interventions to support sectors adversely affected by the pandemic and expected introduction of COVID-19 vaccines (89 percent of respondents), expected recovery of economic sectors with rising demand for goods and

services, and reopening of learning institutions (80 percent respondents).

As risks to this optimism, non-bank respondents cited the tax reversals in January 2021 which previously brought relief to corporates and households, and expected protracted impact of the pandemic.



**Chart 5: Optimism by non-bank private firms on economic prospects (percent)**



## 9. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

### 9.1. Growth in private sector credit in 2020

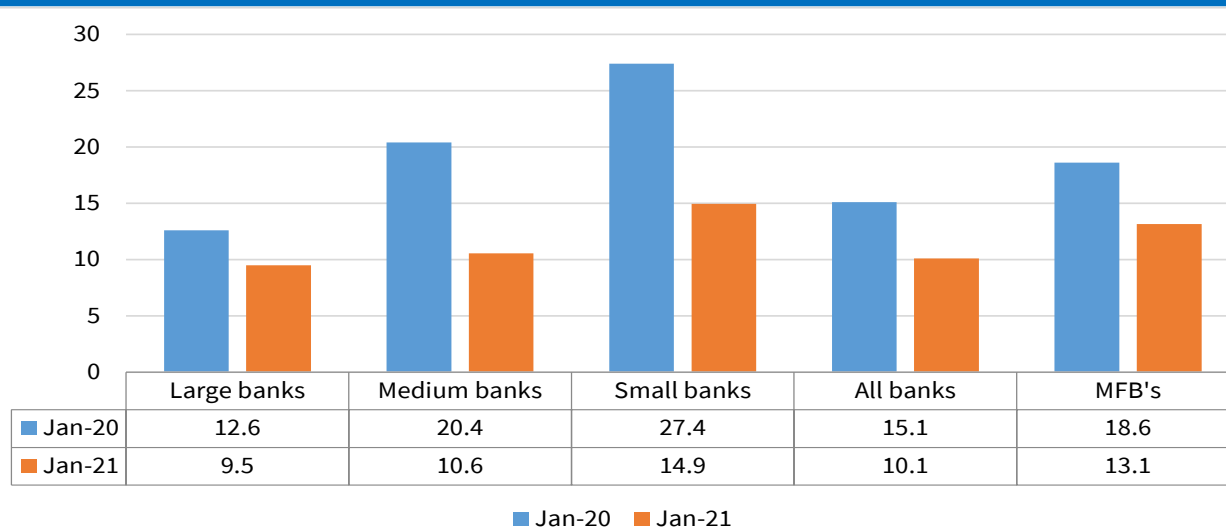
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2021 relative to 2020 (**Chart 6**).

Respondents expected private sector credit growth to be supported by the recovery of economic sectors affected by COVID-19 after lifting of restrictions (98 percent of respondents), support to essential economic sectors e.g. food & agriculture, health, communications, digital economy etc., Government policy interventions to support MSMEs and other

vulnerable groups, continued implementation of the Government's *Big 4 Agenda*, and improved risk profiling.

However, banks cited credit risk and growth in non-performing loans, cautious lending to sectors mostly affected by the pandemic and delayed payment of outstanding bills due from national and county governments as risks to private sector credit growth.

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



## 9.2. Expected demand for credit

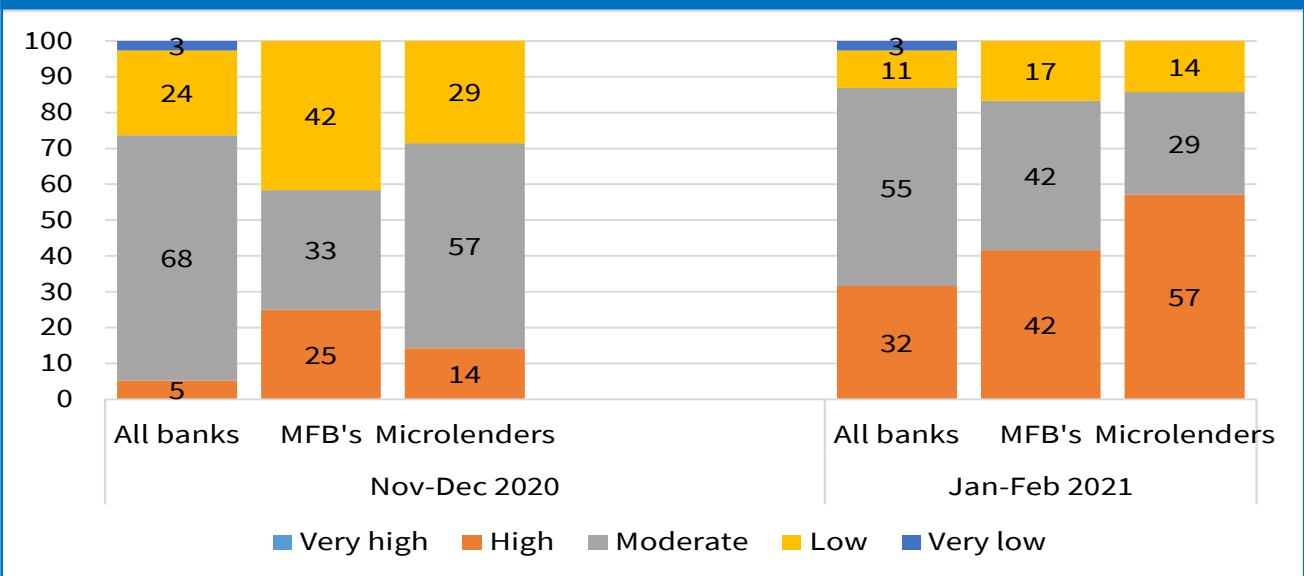
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. November and December 2020), and their expectations for January and February 2021 (**Chart 7**).

Commercial banks, microfinance and micro-lenders expected increased demand for credit in January and February largely driven by gradual rebound of business activities to pre-COVID-19 levels (94

percent respondents), increased demand for credit as schools reopen (80 percent respondents), demand by businesses seeking to boost working capital to enable them recover from the impact of the pandemic, and low interest and inflation rates, respectively.

However, respondents indicated that demand for credit could be dampened by uncertainty around the emergence of the second wave and new strains of the virus, slow recovery of the tourism sector and slow payment of suppliers and contractors.

**Chart 7: Demand for credit in 2020 surveys (percent)**



## 10. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months, January and February 2021.

Respondents expected inflation to remain well anchored within the target range supported by low food prices due to favourable weather, and muted demand pressures (**Table 2**).

However, respondents expected increased demand for goods and services as schools and businesses reopened, potential pressure from cyclical food supply constraints, higher oil prices and reversal of VAT rate reduction to put mild upward pressure on inflation.

**Table 2: Inflation expectations for January and February 2021 (percent)**

Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
Jan-Feb 2020	5.8	5.7	5.8	5.8	5.7	5.8
Mar-Apr 2020	6.0	5.8	6.4	6.4	6.5	6.0
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
<b>Jan-Feb 2021</b>	<b>5.9</b>	<b>5.7</b>	<b>5.7</b>	<b>5.8</b>	<b>5.6</b>	<b>5.8</b>





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