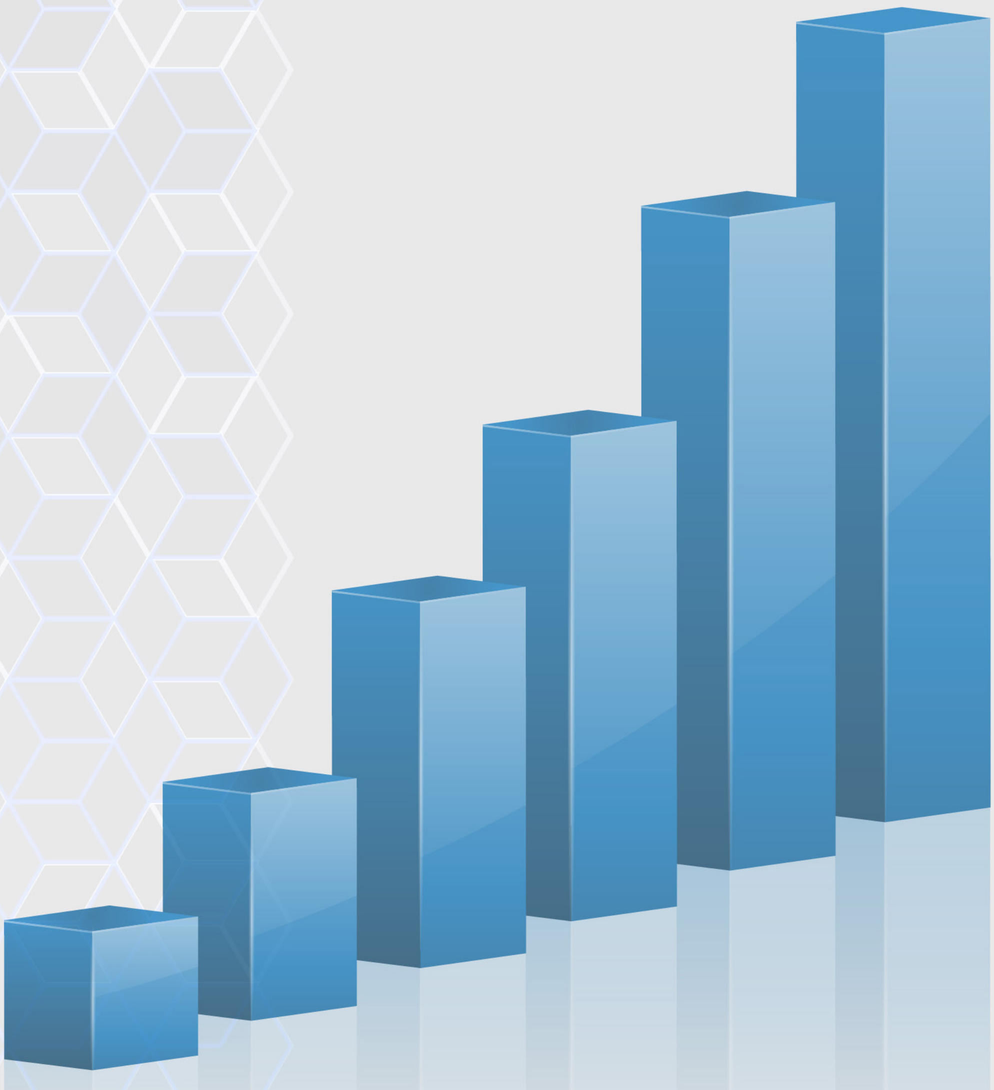
Central Bank of Kenya

Monetary Policy Committee Market Perceptions Survey

September 2021



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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.

A sample of Commercial banks, micro-finance banks, and 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. 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. These sectors account for about 78 percent of the GDP.

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 September 2021 MPC Market Perceptions Survey was conducted in the first three weeks of September. The Survey aimed at getting perceptions by respondents on selected economic indicators for the previous two months (July and August), and expectations for the next two months (September and October), the next one year (September 2021 – August 2022), and the next two years (September 2021 – August 2023).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 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 September 2021 Survey was 60 percent of the sampled institutions. The respondents comprised 37 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 140 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 September 2021 Market Perceptions Survey include:

- Respondents expect inflation to rise in the next 2 months, but to remain within the target range.

- Economic activity is expected to increase in September-October relative to July-August with sustained recovery across the economic sectors.
- Respondents expect economic growth to rebound in 2021.
- Banks expect an increase in private sector credit growth in 2021.
- Optimism in the country's economic prospects remain strong, supported by expected economic recovery and growth, but COVID-19 uncertainties remain.

5. INFLATION EXPECTATIONS

In the Survey, respondents were asked to give their expectations of overall inflation rates for the next 2 months, September and October 2021, and for the next 12 months (September 2021 – August 2022).

Respondents expected inflation to remain elevated but within the target range. About 80 percent of the respondents cited the higher international oil prices and local fuel prices, the resultant increase in prices of manufactured goods, imported goods through rising shipping costs, and higher transport and electricity costs as the main reasons for the expected increase in inflation in the next 2 months **(Table 1).**

Additionally, 70 percent of the respondents expected food prices to remain elevated over the next 2 months due to lower than anticipated rains and dry weather conditions in some parts of the country, while 43 percent of respondents expected the increase in taxes to result in higher commodity prices including food and fuel products.

However, 20 percent of respondents expected inflation to be moderated by anticipated improvement in food supply with the onset of the short rains season in parts of the country, muted demand pressures and expected stabilisation in oil prices.

Over the next 12 months, respondents expected recovery in demand, as the country recovers from the COVID-19 pandemic, to exert moderate pressure on inflation.

Table 1: Inflation expectations for September and October 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
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
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
Sept-Oct 2021	6.8	6.8	6.6	6.8	6.7	6.6
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
Sept'21 Survey	6.3	6.3	6.5	6.4	6.4	6.5

6. ECONOMIC ACTIVITY

The September 2021 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in July and August 2021, and their expectations for September and October 2021. Respondents expected improved economic activity in September – October relative to July - August **(Chart 1 & 2).**

Approximately 80 percent of the respondents expected improvement in economic activity following the easing of restrictions on the back of lower COVID-19 infections and increased vaccinations, increased public spending to support recovery with likely knock on effect on private sector, and the adaptation by businesses to the new normal.

About 65 percent of respondents, however, indicated that the COVID-19 pandemic remained the main risk to economic activity in the next 2 months, citing the uncertainty, impact of mutating variants, containment measures, slow reopening and slow recovery of some sectors.

In addition, 40 percent of the respondents expected the increase in taxes and fuel prices to hamper activity by increasing costs of goods and services, reducing purchasing power, and affecting businesses, especially those that are yet to recover from the impact of the pandemic.

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

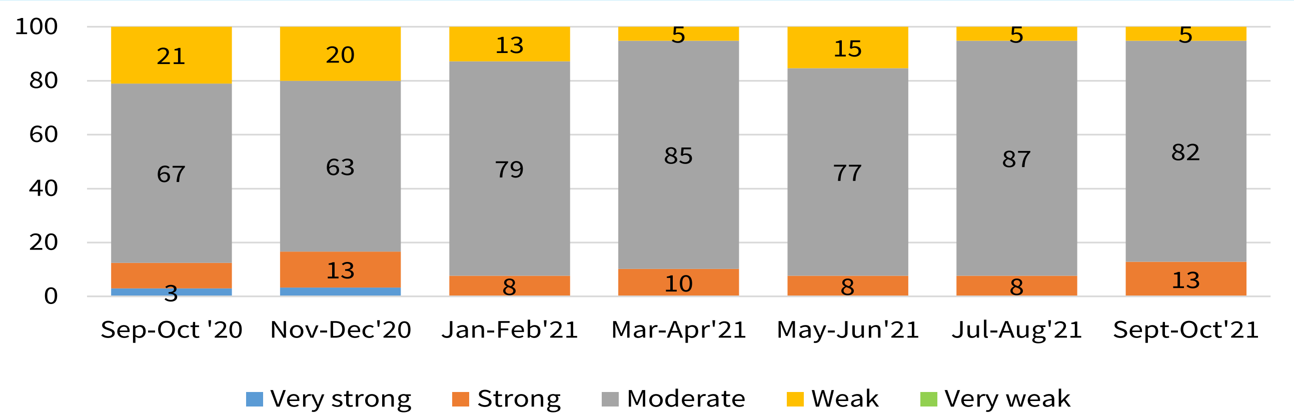
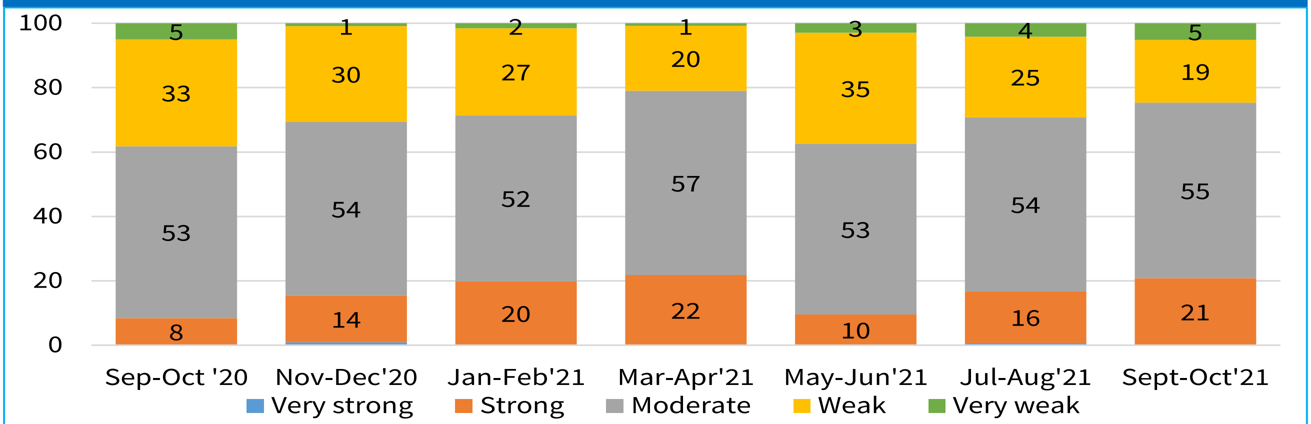


Chart 2: Expected economic activity by non-bank private sector (percent respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit in 2021

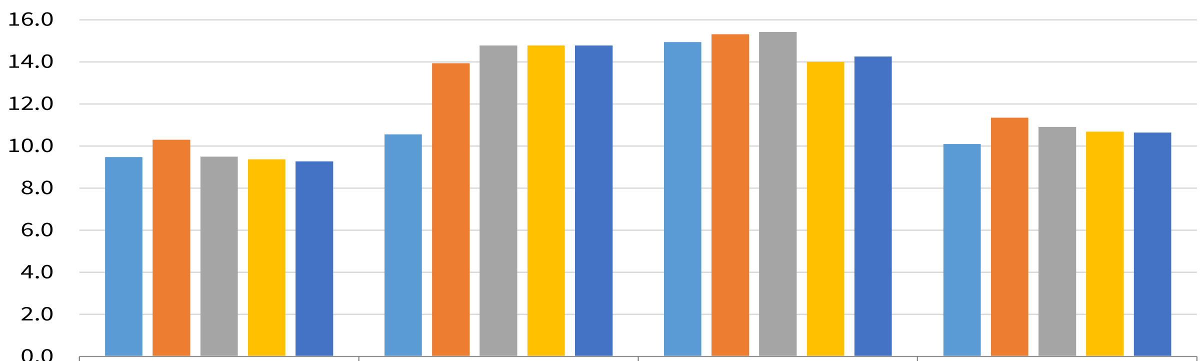
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2021 relative to 2020. Respondents expected an increase in private sector credit growth in 2021 relative to 2020 **(Chart 3).**

Approximately 70 percent respondents expected increased credit uptake in 2021, supported by increased lending to MSMEs, demand in key sectors such as manufacturing, transport, construction, with the easing of COVID restrictions and ongoing vaccinations, and expectations of lower credit risk as business operations improved.

In addition, 35 and 30 percent of respondents, respectively, cited the introduction of new products and digital solutions targeted at new customers as banks seek to expand their portfolios, and the implementation of the Government's Big 4 Agenda and budgetary allocations to major developments, some through MSME & SME funding, as reasons for expected increase in private sector credit growth.

However, respondents pointed out credit risk in some sectors, and heightened political activity as risks to private sector credit growth.

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



	Large banks	Medium banks	Small banks	All banks
Jan-21	9.5	10.6	14.9	10.1
Mar-21	10.3	13.9	15.3	11.3
May-21	9.5	14.8	15.4	10.9
Jul-21	9.4	14.8	14.0	10.7
Sep-21	9.3	14.8	14.3	10.6

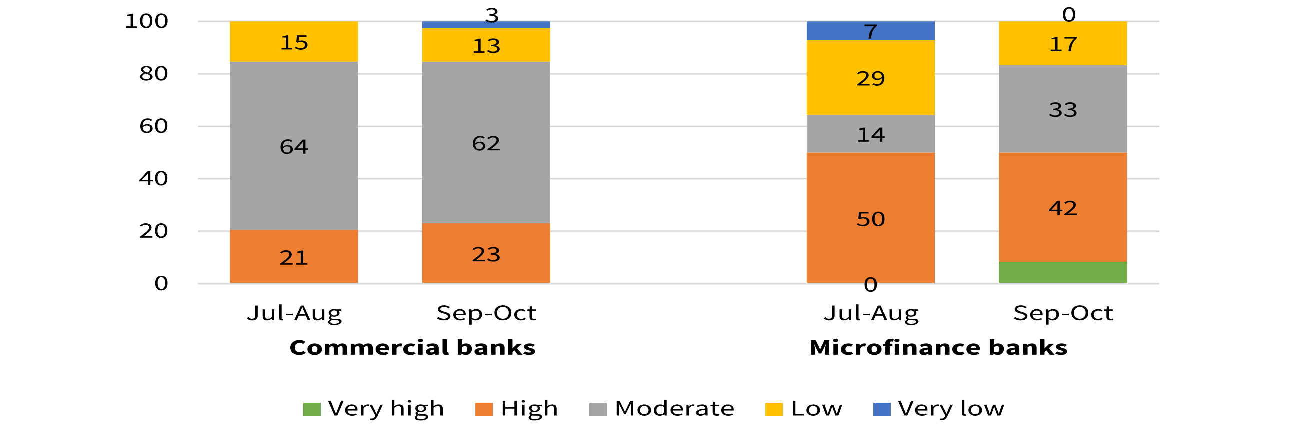
7.2. Expected demand for credit

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the two months before the MPC meeting (i.e. July and August), and their expectations for September and October 2021 **(Chart 4).**

Respondents expected a marginal increase in demand for credit in the next 2 months, driven by continued recovery of the economy as businesses reopen due to Government's continued efforts to manage the pandemic, seasonal increase in demand for goods and services during the last quarter of the year and growing confidence drawn from increased acceptance and availability of vaccines. In addition, respondents cited increased liquidity in the market, reopening of schools, new products by banks, and financial demands for investors in the new financial year as factors likely to boost demand for credit in the next 2 months.

However, some respondents expected the COVID-19 pandemic, a wait and see attitude by investors, political noise, increase in taxes and low consumption, especially for non-essential items to weaken demand for credit in the next 2 months.

Chart 4: Expectations on demand for credit from banks' perspective (percent)



8. EXPECTED ECONOMIC GROWTH

The Survey requested participants to indicate their estimated economic growth rate for the country in 2021. Respondents revised upwards their September Survey growth rates expectations **(Table 2).**

About 80 percent of the respondents expected improved economic growth in sectors adversely affected at the onset of the pandemic including, education, trade and manufacturing. This follows the easing of COVID-19 restrictions both locally and internationally, which is expected to boost tourism and transportation as business operations resume to near 2019 levels, the implementation of the post Covid-19 Economic Recovery Strategy, and the availability of vaccines.

Additionally, 40 percent of respondents pointed out the continued infrastructure spending and completion of major Government projects as reasons for the expected economic growth.

The COVID-19 pandemic, however, remained the biggest risk to the expected pick-up in growth due to the uncertainty both locally and globally, the slow vaccine rollout in Kenya, slowdown in economic activity, especially in the tourism sector, occasioned by containment measures in case of an upsurge in new infections, and possible mutations of the virus (70 percent respondents).

Table 2: Expectations on economic growth for 2021 (percent)

	SURVEY MONTH				
	Jan-21	Mar-21	May-21	Jul-21	Sep-21
Banks	3.5	5.1	5.5	5.6	5.2
Agriculture	4.7	5.4	6.1	5.9	5.6
Manufacturing	5.1	5.1	5.4	5.4	5.4
Trade	4.5	5.0	5.4	5.6	6.2
Real estate, Building, construction	4.7	5.1	5.2	5.8	5.2
Finance & Insurance (excl. banks)	5.1	5.1	5.2	5.3	5.8
Transport & Services	4.6	4.5	5.2	5.9	4.6
Tourism(hotels &restaurants)	4.7	4.7	5.3	5.5	5.7
Non-bank private sector	4.7	5.2	5.6	5.7	5.7

9. OPTIMISM ON THE ECONOMIC PROSPECTS

The September 2021 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 5 & 6).**

About 70 percent of respondents cited increase in global and domestic demand, increased economic activity arising from improved confidence and reopening of the economy with the decline in the spread of the virus, and continued vaccinations as reasons for their optimism.

In addition, 48 percent of respondents cited, as reasons for their optimism, the Implementation of the FY2021/2022 Budget, including the Economic Stimulus Programme, increased planned Government expenditures, expected increased revenue collection, renewed focus on infrastructure, and the completion of development projects under the Big 4 Agenda. Other important factors included the diversified nature of the economy, stable macro-economic fundamentals and resilience of the private sector.

Risks to the optimism in economic prospects included political noise, expected to be elevated with the onset of the 2022 election cycle (40 percent respondents), continued uncertainty around COVID-19, slow vaccine rollout, and emergence of new variants (38 percent respondents).

Additionally, 20 percent of respondents indicated that higher taxes, were discouraging businesses operating in the country, and eroding consumers' disposable income.

Chart 5: Optimism by Banks on Economic Prospects (percent)

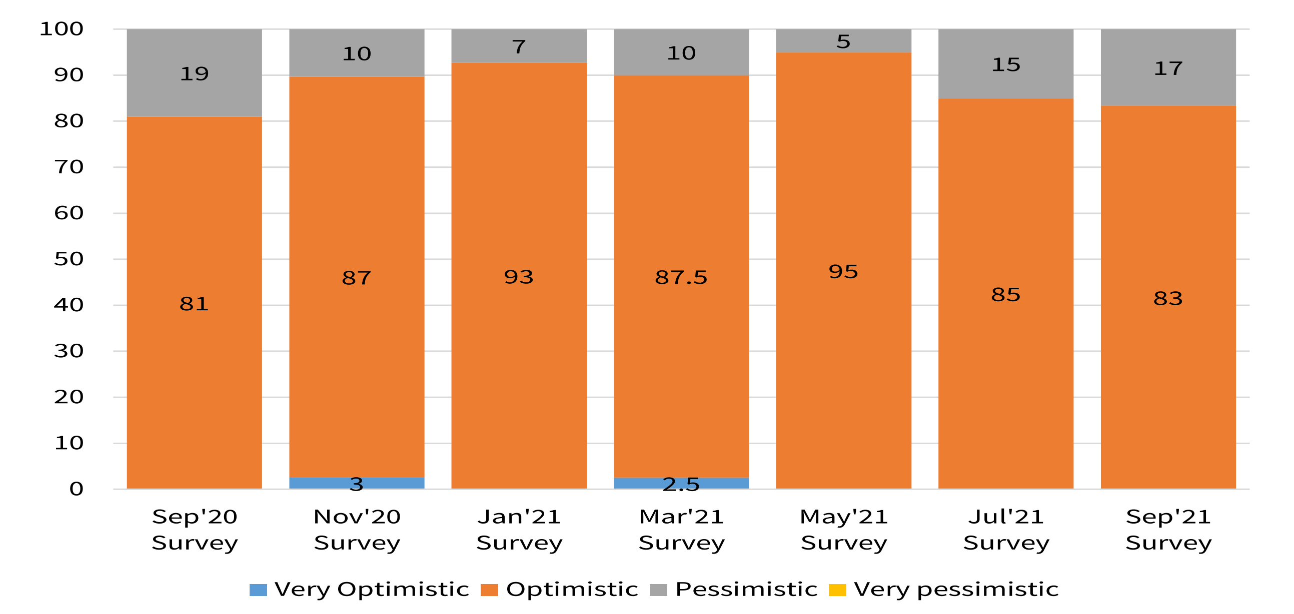
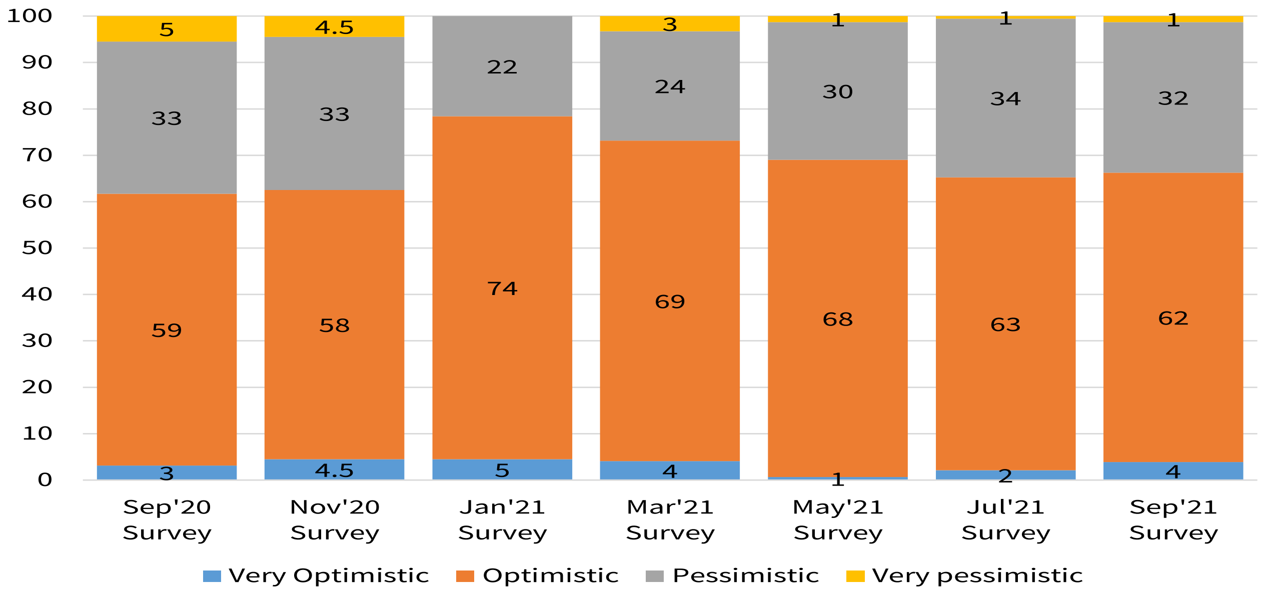


Chart 6: Optimism by Non-bank private firms on Economic Prospects (percent)



10. EXPECTED CHANGES IN EMPLOYMENT

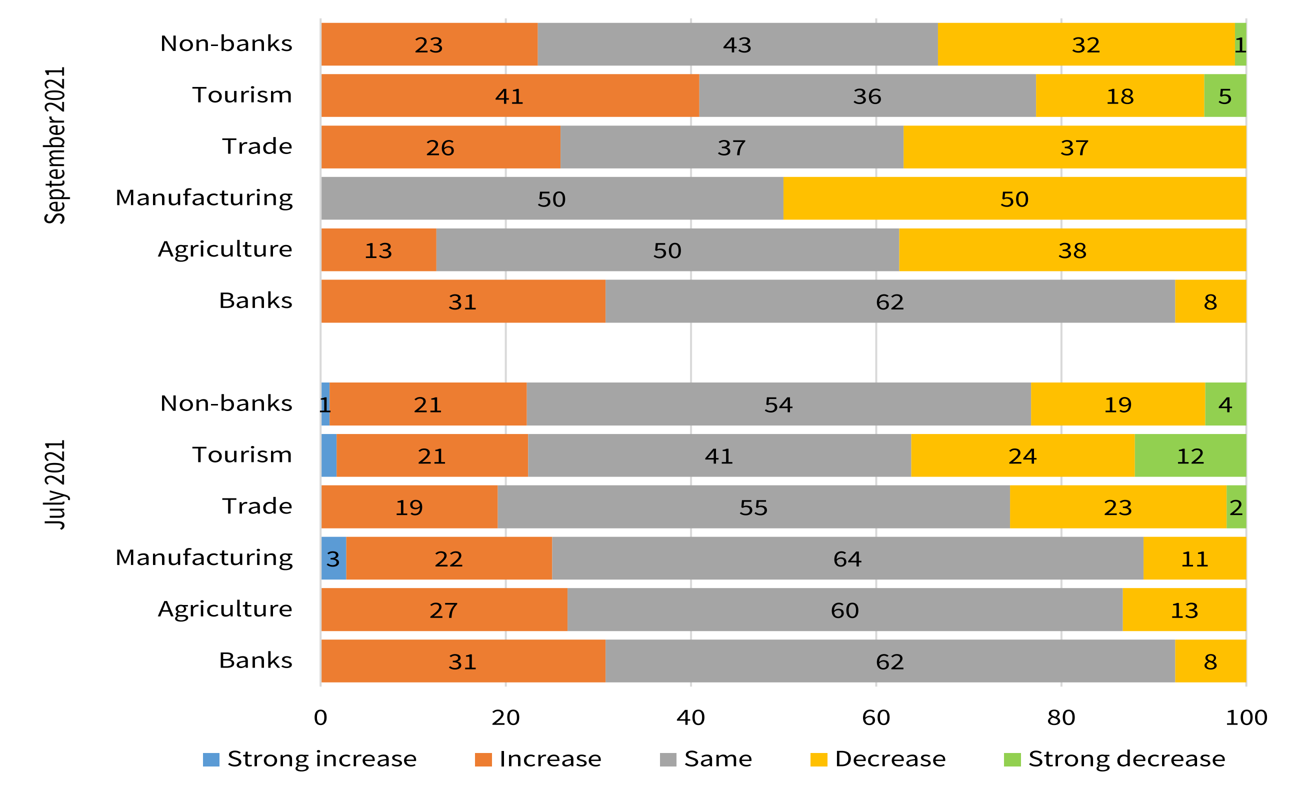
The Survey asked respondents to indicate their expectations with regard to change in the number of employees in their respective institutions in 2021 relative to 2020. Expectations varied according to sectors, with some expecting to increase the numbers and others to decrease the numbers **(Charts 7).**

Banks on average expected to maintain their current workforce, with some looking to open new branches, due to increased business levels and returns from expansion of business, while others expected to improve efficiency by investing in digital technology, in an environment of weak business prospects arising from the COVID-19 pandemic.

Hotels indicated increase in the number of guests, and anticipation of a more busy vibrant festive season in 2021 and therefore better employment prospects, with the roll out of the vaccine and easing of the COVID-19 restrictions. Others, however, reported low business and the need to cut costs.

Agricultural sector respondents reported expected decline in the number of employees in 2021 citing reduced production activity and the need to cut production costs, while players in the manufacturing sector expected reduced numbers due to reduced production activity, interruptions due to shipping delays caused by the pandemic, cash flow challenges, unmet revenue targets and stagnation in business activities.

Chart 7: Expectations on employment levels for 2021 relative to 2020 (percent)



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 September and October 2021. Respondents across banks and non-banks expressed mixed expectations with regard to the exchange rate of the expected Shilling to US Dollar.

Respondents expected the huge foreign exchange reserves, increased tea and horticultural exports, strong inflows from the diaspora, relief from debt service moratoriums and improved public finance management to keep the shilling well supported in the next 2 months.

Additionally, respondents expected recovery in global travel, on the back of vaccine rollout to support tourism, and the Shilling in the next two months.

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 an efficient and effective judiciary to decide commercial disputes within the shortest time possible, standardization of contracts to reduce legal costs, stable and predictable tax regime, clarity on pricing methodology and framework, and settlement of pending bills by national and county governments to unlock liquidity.

In addition, respondents mentioned the need for more economic stimulus packages and tax incentives to support business continuity post COVID. Other recommendations included a quick roll out of COVID-19 vaccination programme to reduce 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 cost of doing business through compliance costs.

Non-bank private firms on the other hand suggested a number of areas including reduction of high taxation, affordable credit, provision of incentives to the tourism industry, tax relief for businesses greatly affected by the COVID-19 pandemic, lifting of COVID-19 restrictions and provision of a financial stimulus package especially for SMEs. These contribute a great deal in improving the business environment.

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

13. CONCLUSION

The September 2021 Market Perceptions Survey revealed optimism in the economic activity for the months of September and October relative to July-August, with sustained recovery across the economic sectors. This is moderated by elevated inflation expectations but is expected to remain within the target range. While Banks expect an increase in private sector credit growth in 2021. The Survey also revealed there is optimism in the country's economic prospects which remain strong, supported by expected economic recovery and growth, although there are uncertainties around COVID-19 pandemic.

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