Central Bank of Kenya

Monetary Policy Committee Market Perceptions Survey

May 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 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 May 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 (March and April), and expectations for the next two months (May and June), the next one year (May 2022 – April 2023), the next two years (May 2022 – April 2024), and the next five years (May 2022 – April 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 May 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 increase in the next 2 months but remain within target range.
2. Moderate economic activity expected in May and June.
3. Operation levels of firms expected to improve gradually in 2022.
4. Economic growth expected on account of post pandemic recovery, but risks from the war in Ukraine remain elevated.
5. Banks expect an increase in private sector credit growth in 2022.
6. Sustained optimism in the country's economic prospects.

5. INFLATION EXPECTATIONS

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

Respondents indicated expectations of an increase pressure on inflation in the next 2 and 12 months.

In particular, 92 percent of respondents expected inflation to be driven by high fuel and gas prices, and consequently transport prices due to high international oil prices, worsened by the war in Ukraine, and geopolitical tensions between Russia and the West.

Additionally, 56 percent of respondents expected elevated food prices because of reduced harvest of vegetables and cereals, following lower-than expected rainfall, high fertilizer prices, and increased prices of imported wheat.

Further 48 percent of respondents expected the supply chain shocks, knock on effect of the Ukraine/Russia war, export ban of commodities by some countries, to impact import of agricultural inputs such as fertilizers and raw materials, particularly for manufacture of cooking oil.

Lastly, 39 percent of respondents expected imported inflation for some items with supply chain links with Russia and Ukraine, and the impact of the stronger US Dollar against most currencies.

Nevertheless, respondents expected lower food prices due to improved supply with the long rains to moderate inflation. Inflation was expected to remain within the target range.

Chart 1: Actual and Expected Inflation for (percent)

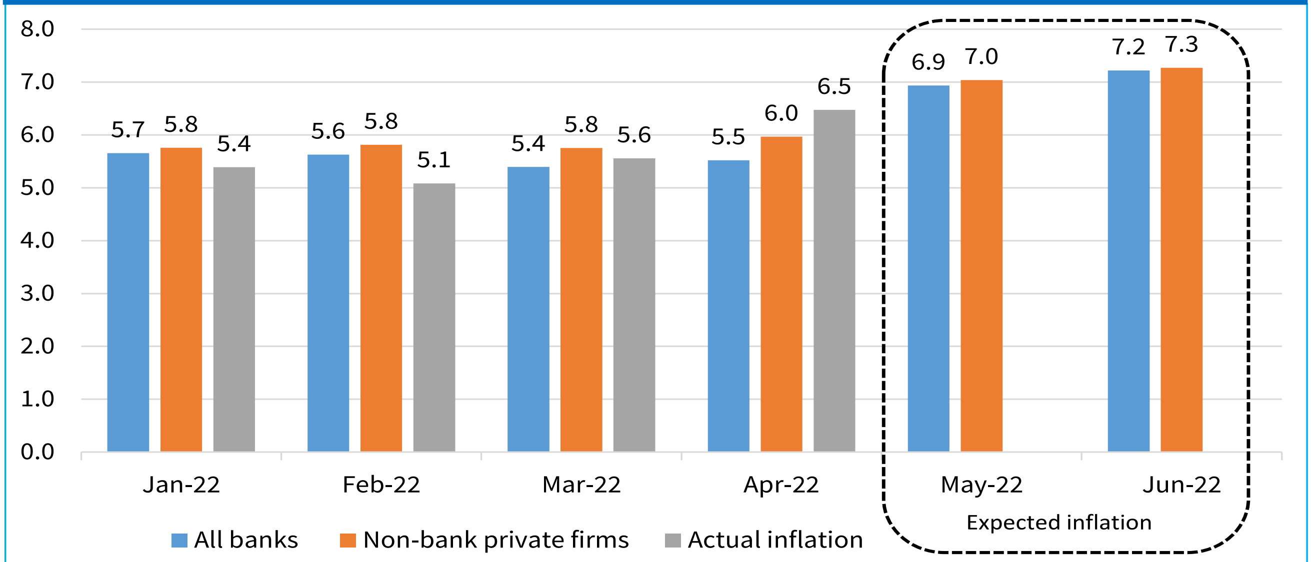


Table 1: Inflation expectations for the next 2 and 12 months (percent)

Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
INFLATION EXPETATIONS FOR THE NEXT 2 MONTHS (AVERAGE)						
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
May-Jun 2022	7.1	6.9	6.8	7.1	6.7	7.2
INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS						
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
May'22 Survey	6.9	6.3	6.5	6.8	6.3	6.8

In the medium term, respondents expect policy measures economic growth and stability 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	6.0	5.9	5.9	5.9	5.6	5.9
Next 5 years	5.0	5.5	5.7	5.1	5.4	5.3

6. ECONOMIC ACTIVITY

6.1. Economic activity

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

Approximately 60 percent of respondents expected economic activity to be largely supported by a return to normalcy as the economy continues on a recovery path with businesses which had previously been closed down due to the pandemic picking up their normal operations. Additionally 27 percent of respondents expected resilient domestic demand for consumables both locally and overseas, and increase in private consumption due to improving employment conditions and household incomes to support activity in May and June.

However, respondents were concerned about rising inflation with possble further increases in international oil prices (54 percent respondents), and heightened political activity as firms could postpone their expansion and investment decisions until after the elections, and investors adopt a wait and see approach (29 percent respondents).

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

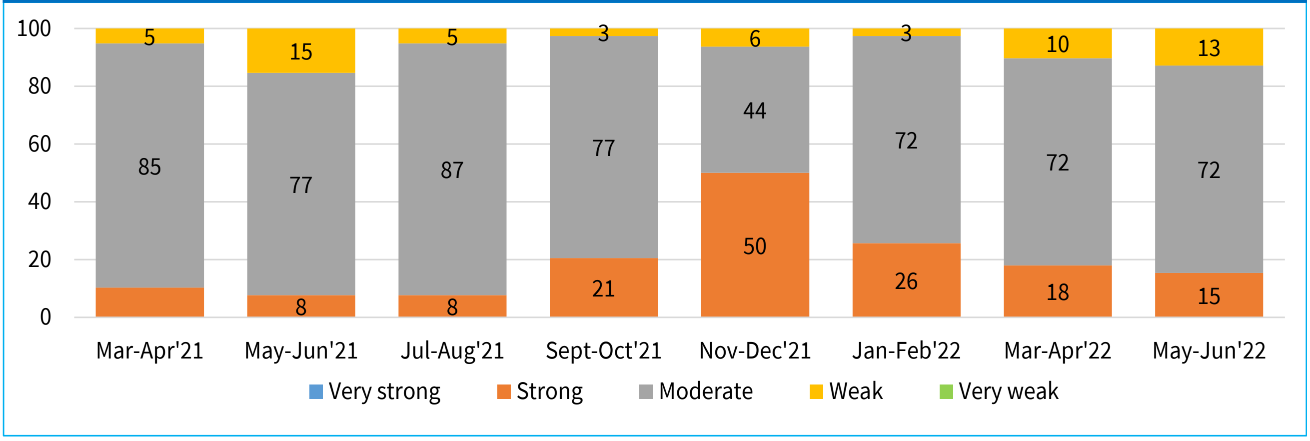
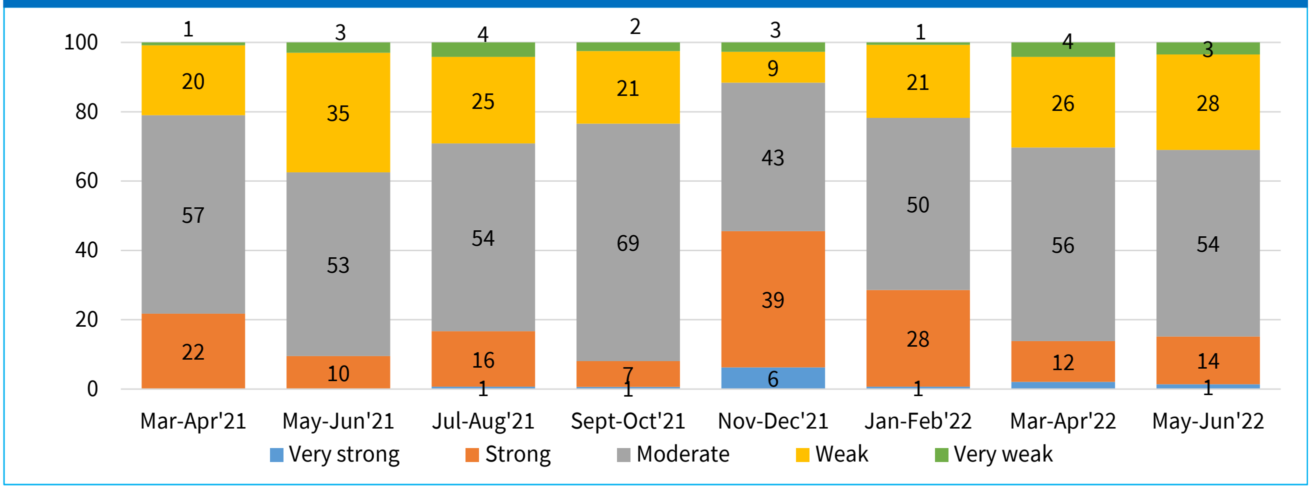


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



6.2. Firms' Operations levels

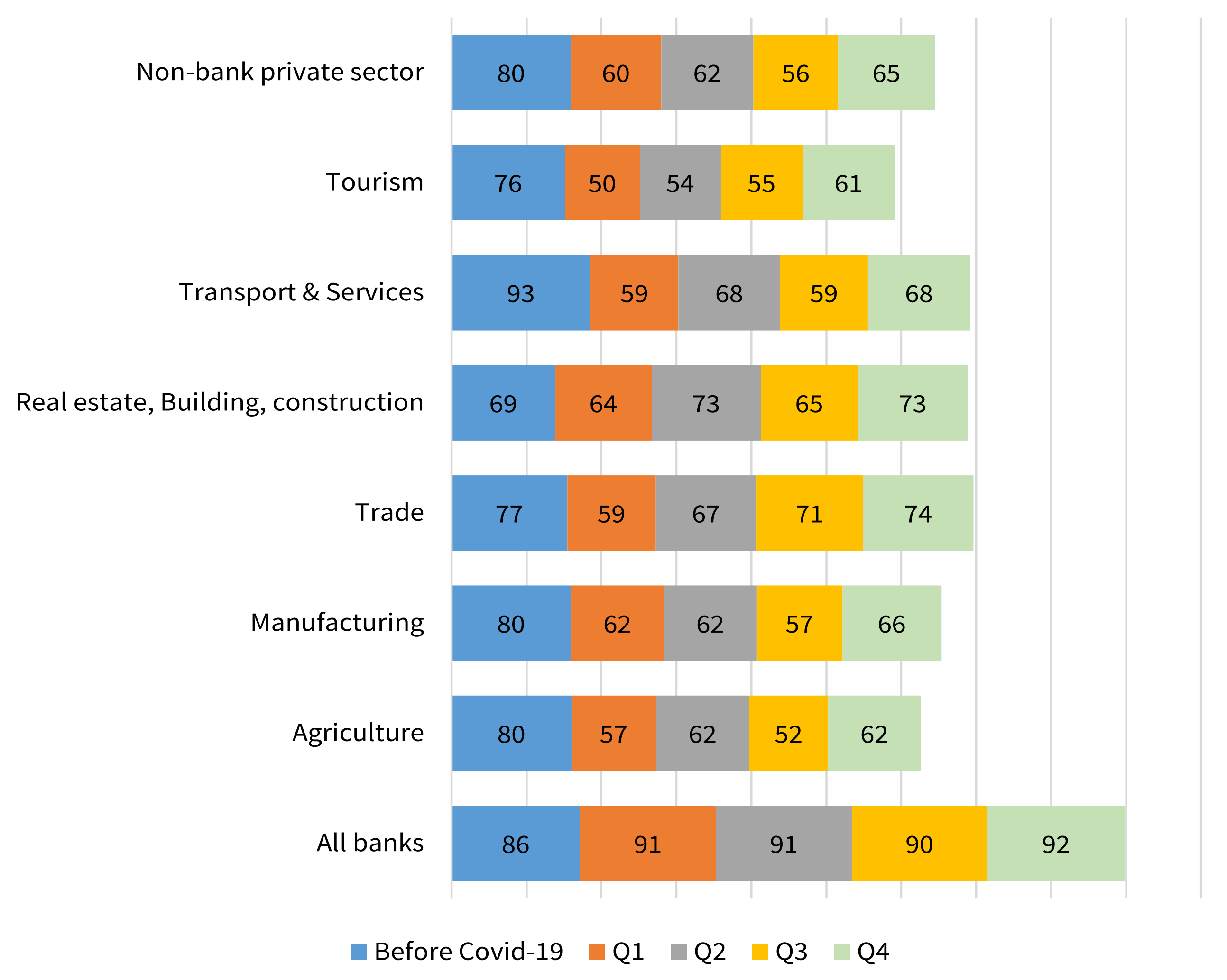
The Survey sought to find out from respondents the expected levels of operation (functioning, running and performance) for Q1, Q2, Q3 and Q4, 2022. Compared with the respective pre-COVID-19 operation levels given in the November 2021 survey, the results showed that different sectors were at different levels of recovery, with some having achieved the pre-COVID levels **(Chart 4).**

Bank respondents expected normal operations to continue through the remainder of the year with minimal disruption from political activity and COVID-19 citing expected continued economic recovery from effects of the pandemic and recovery of supply chains world-wide hence improved business activity.

Bank respondents, however, expected a potential slowdown in Q3 with the general elections, but for the economy to rebound in Q4 after the elections.

Other non-bank firms anticipated a gradual improvement in business activity and hence operations post COVID. Non-bank respondents expected a slow down in activities with the approaching elections as investors adopt a wait and see approach. They also cited the proposed increase in excise taxes, rising inflation, high cost of production and heightened political activity as risks to operations.

Chart 4: Expected Operation levels (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit in 2022

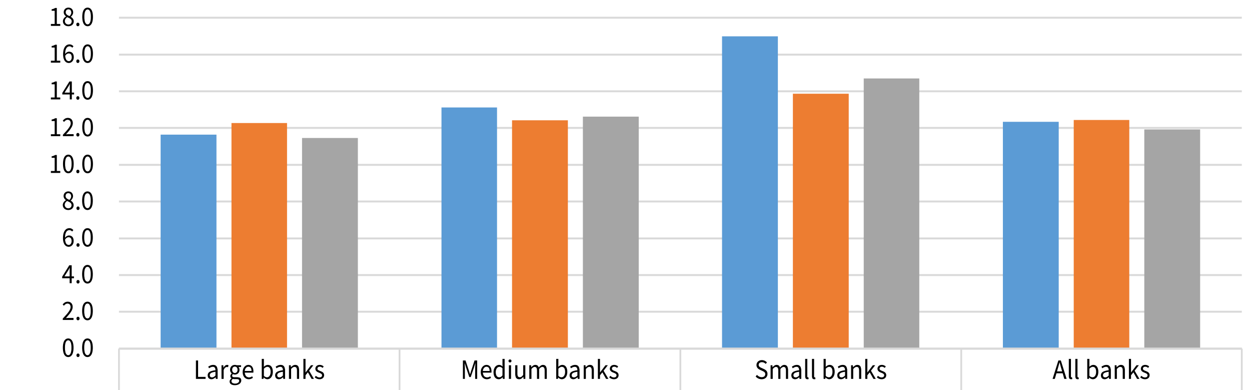
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2022 relative to 2021. Respondents expected an increase in private sector credit growth in 2022 relative to 2021 **(Chart 5).**

Approximately 72 percent of respondents expected private sector credit growth to be supported by demand for credit from sectors previously affected by COVID-19 restrictions, especially manufacturing, due to the improvement in the country's economic outlook following the lifting of COVID-19 restrictions.

Additionally, 20 percent of respondents cited continued economic growth as seen in increased activities in manufacturing, trade, infrastructure segments, as their reasons for private sector credit growth.

However, the possible slow-down in some sectors due to the upcoming elections as investors put on hold larger projects and investments, and rise in nflation were cited as risks to expected private sector credit growth by 57 and 29 percent respondents, respectively.

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
May-22	11.5	12.6	14.7	11.9

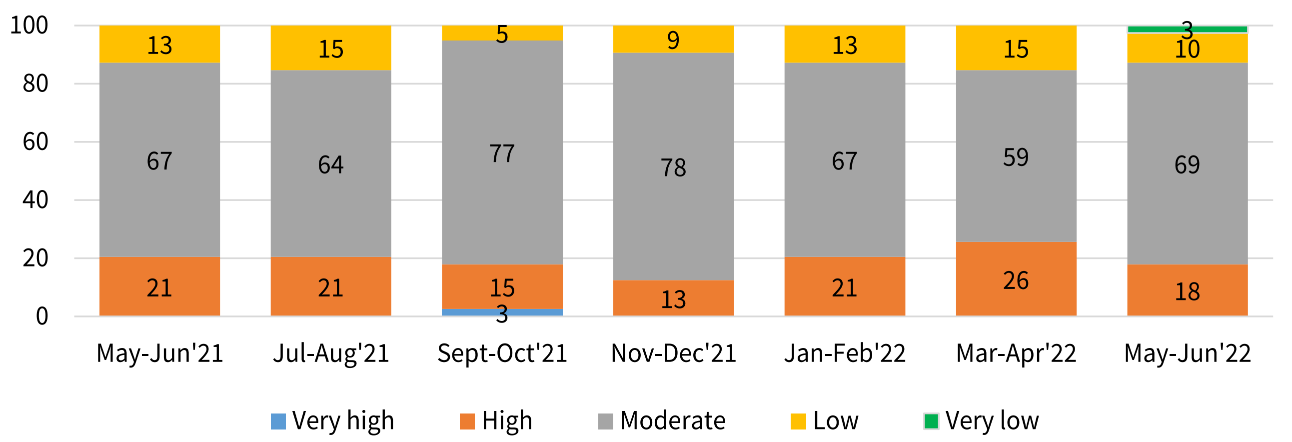
7.2. Expected demand for credit

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

Respondents expected moderate demand for credit by borrowers in May and June, driven by increased economic activities and growth in various sectors as the economy recovers from the pandemic, and by demand for working capital on the back of increased prices of raw materials and tradeable goods especially imports due to the Ukraine-Russia war.

However, respondents pointed out the general elections uncertainty and rise in inflation as risks to credit demand in the next two months.

Chart 6: Expectations on Demand for credit from banks' perspective (percent of respondents)



8. EXPECTED ECONOMIC GROWTH

The Survey requested participants to indicate their expected economic growth rates for the country in 2022, in the next 2 years (2023), and in the next 5 years (2026).

Respondents expected economic growth in 2022 to be largely driven by post COVID-19 economic recovery, and the medium term economic growth to be driven by expected rebound after the elections, post COVID-19 recovery and global stability, with improved economic activity and macroeconomic stability **(Charts 7 & 8).**

61 percent of respondents expected recovery in key sectors to drive growth in 2022 citing reduced pandemic risks, increased vaccination of the population, and relaxed COVID restrictions. In addition, they expected a rebound growth in both public and private sectors, and increased demand for goods & services.

28 percent of respondents expected growth to be driven by Government spending on ongoing infrastructure projects.

However, a possible effect of investor wait and see attitude on investments, businesses and ongoing development projects in an election year, and rising inflationary pressures, with the high cost of food and fuel, high commodity and input costs and high cost of production from the domestic market and geopolitical events around the world, were cited by 65 and 31 Percent respondents, respectively, as potential risks to economic growth in 2022.

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

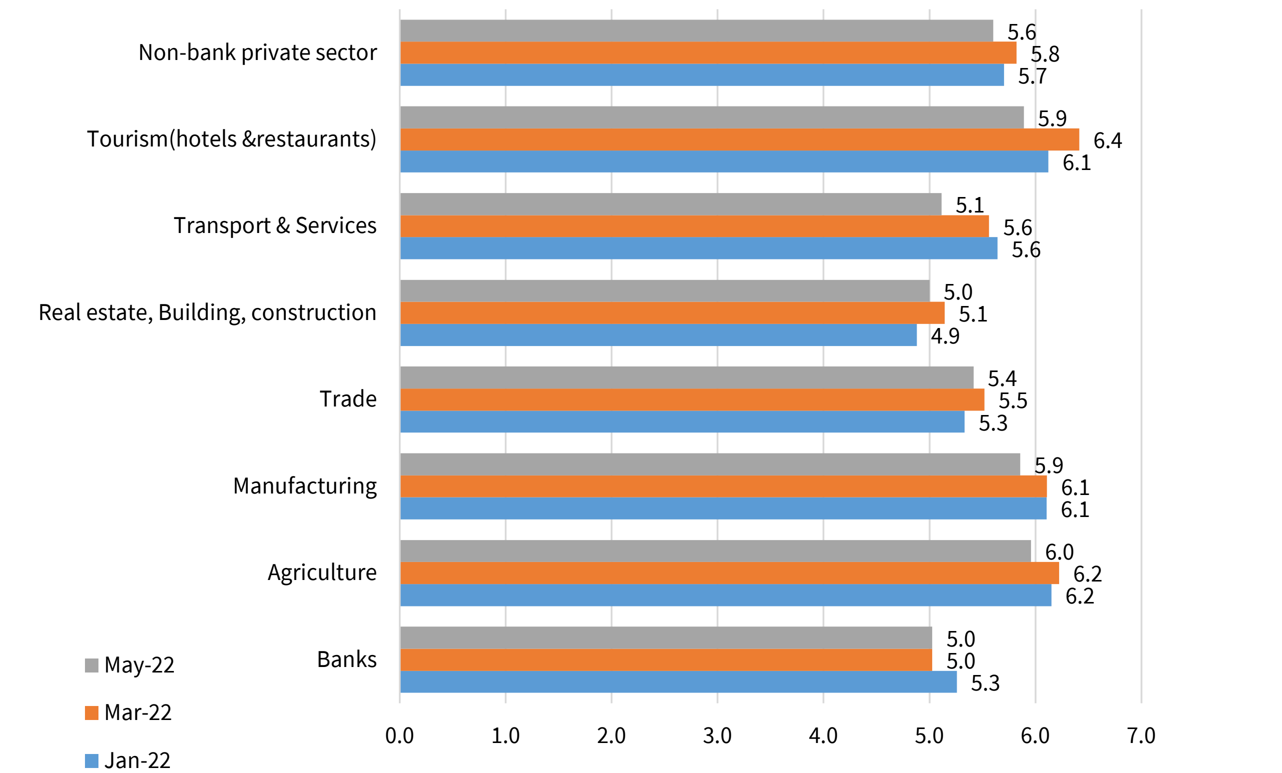
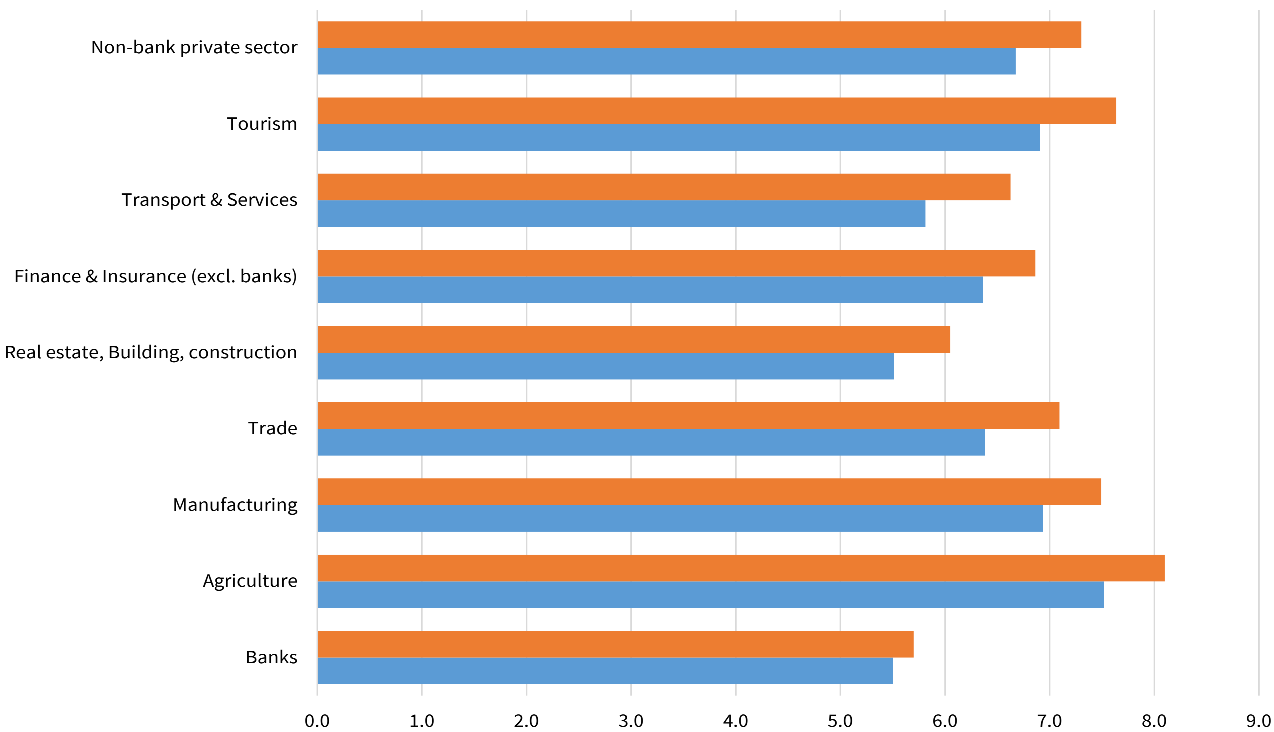


Chart 8: Expectations on economic growth for the next 2 years (2023) and the next 5 years (2026) (percent)



	Banks	Agriculture	Manufacturing	Trade	Real estate, Building, construction	Finance & Insurance (excl. banks)	Transport & Services	Tourism	Non-bank private sector
2026	5.7	8.1	7.5	7.1	6.1	6.9	6.6	7.6	7.3
2023	5.5	7.5	6.9	6.4	5.5	6.4	5.8	6.9	6.7

9. OPTIMISM ON THE ECONOMIC PROSPECTS

The May 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 53 percent of respondents attributed their optimism on a return to normalcy post COVID, increased vaccinations and relaxation of containment measures, while 31 percent expected peaceful elections and resumption of economic activities post elections. About 22 percent of respondents based their optimism on continued government expenditure on infrastructure.

However, respondents pointed out heightened political activity, and possible slower activity on account of deferred investment and expansion decisions (50 percent respondents), rise in inflation (50 percent respondents) and the Russia-Ukraine war (29 percent respondents), as the main risks to this optimism.

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

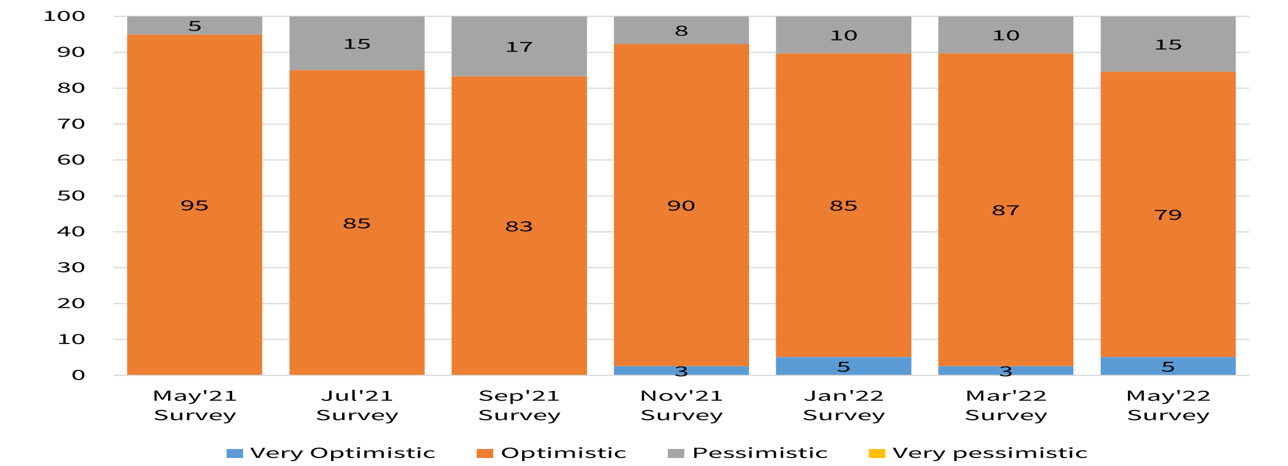
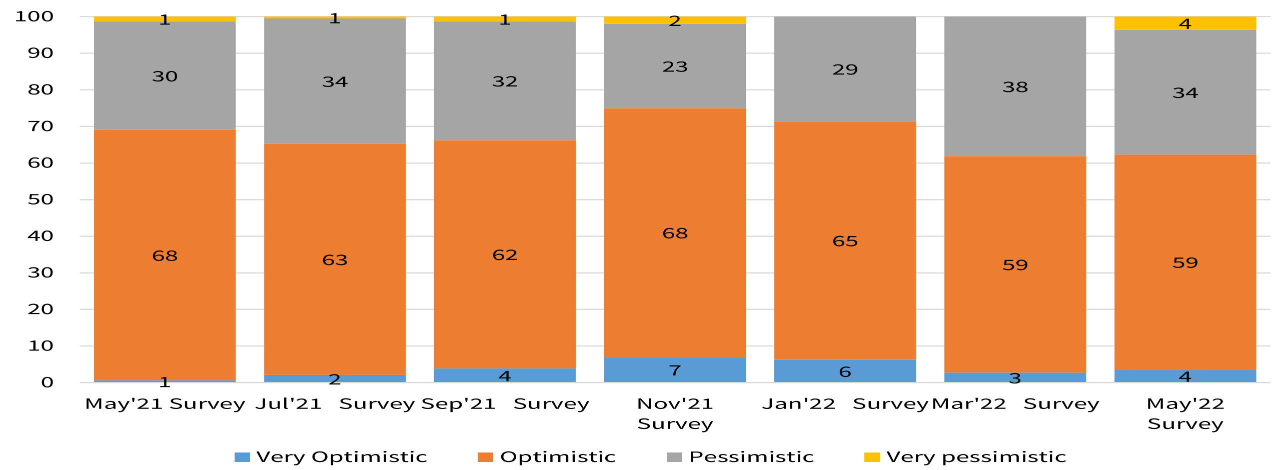


Chart 10: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



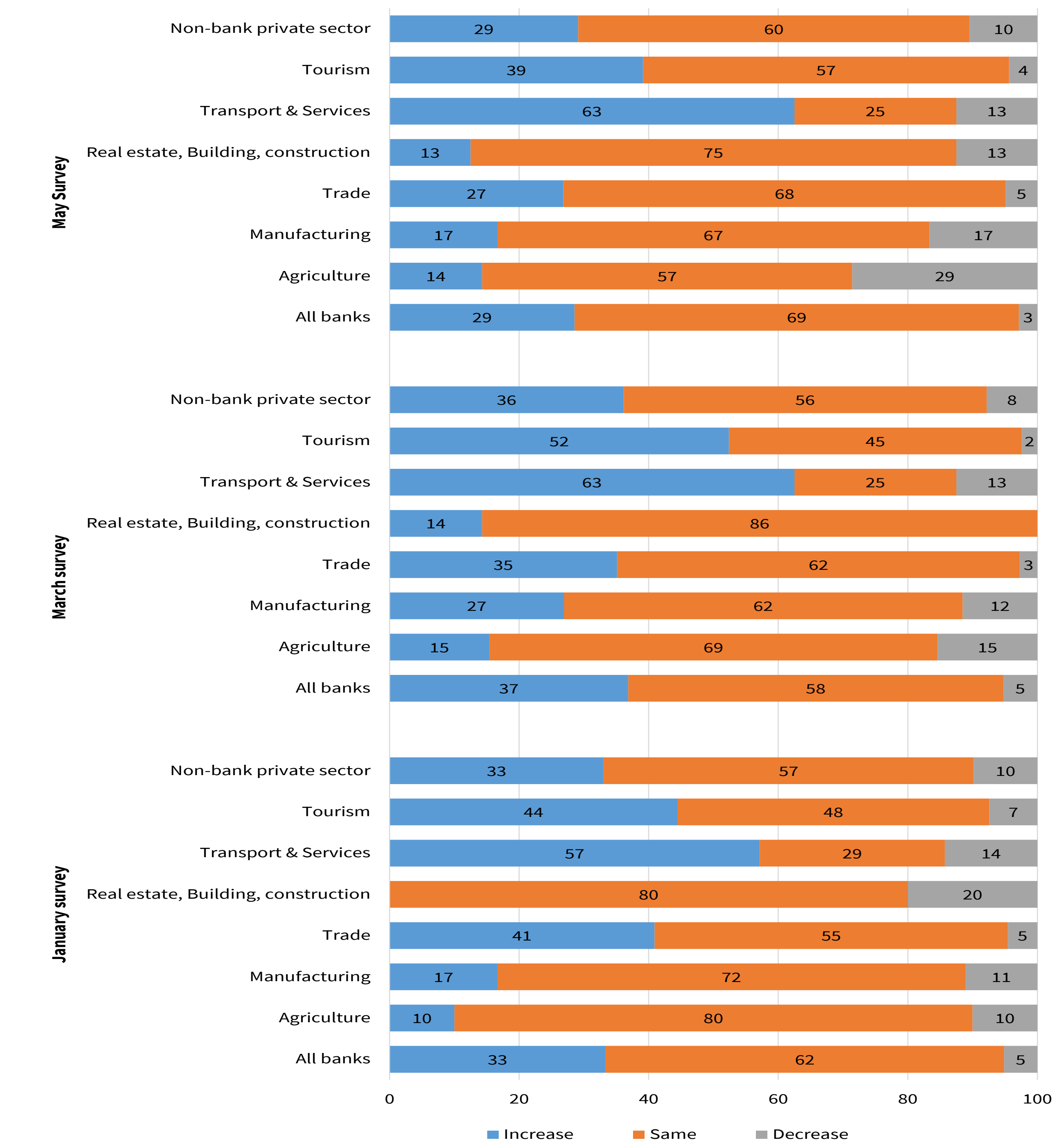
10. EXPECTED CHANGES IN EMPLOYMENT

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 in 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 more staff to cater for increasing business.

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 May and June 2022.

Respondents expect the exchange rate of Kenya Shilling against the US Dollar to be supported by the stable foreign exchange reserves and increased dollar inflows from the diaspora.

However, respondents across banks and nonbanks largely expect some pressure on the Shilling on account of a stronger US Dollar globally due to its safe-haven appeal arising from the geopolitical tensions, increased demand with rising import bill as global oil prices rise and dividend payments by corporates.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested that commitment by the national and county governments to settle their pending bills would spur demand for credit and lower NPLs, and the increased efforts in the fight against corruption will improve the business environment.

In addition, respondents indicated that more public education to raise awareness on cyber frauds, efficient and speedy turnaround time for pending court cases relating to NPLs, and ongoing efforts for commercial banks to increase credit to SME's would improve the business environment for the sector.

Non-bank private firms on the other hand suggested the need to review taxation policies, provision of low interest credit loan facilities by banks, lower money transfer charges, and incentives to sectors such as tourism and manufacturing.

In addition, the non-bank and 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 job creation.

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