



Central Bank of Kenya

Market Perceptions Survey

January 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 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 January 2023 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 (November and December 2022), and expectations for the next two months (January and February 2023), the next one year (January – December 2023), the next two years (January 2023 – December 2024), and the next five years (January 2023 – December 2027).

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 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 39 commercial banks, 14 microfinance banks (MFBs) and 302 non-bank private firms, including 84 hotels, through questionnaires administered online. The overall response rate to the January 2023 Survey was 47 percent of the sampled institutions. The respondents comprised 39 commercial banks, 13 micro-finance banks, and 111 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 January 2023 Market Perceptions Survey included:

1. Overall Inflation expected to decline gradually but remain elevated in the next 2 months.
2. Economic activity expected to remain strong in January and February.

3. Key sectors expect to increase employment in 2023.
4. Economic growth expected to remain resilient in 2023.
5. Banks expect continued growth in private sector credit in 2023.
6. Sustained Optimism in the country's economic prospects.
7. Stronger forward hotel bookings due to extended school holidays and winter conditions abroad.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (January and February 2023), the next 12 months (January – December 2023), the next 2 years (January 2023 – December 2024), and the next 5 years (January 2023 – December 2027) (**Table 1 & 2**). Respondents expected inflation to decline gradually but remain elevated in the next 2 months.

62 percent of the respondents expected upward pressure on inflation to come from high cost of energy despite declining international oil prices. The respondents expected high fuel, transport and electricity costs due to the removal of Government subsidy and increased cost of production and subsequently higher prices of consumer goods and services.

Additionally, 34 percent of the respondents expected food prices to remain relatively high despite the ongoing harvest season due to removal of maize subsidies last year and low agricultural production.

Nevertheless, about 50 percent respondents expected some relief on inflation on account of:

- i) Stabilizing international oil prices.
- ii) Moderated food prices following the ongoing harvest.
- iii) Improved supply and distribution of food through Government interventions to import food commodities including maize and rice.
- iv) Easing global prices of food commodities.

Table 1: Inflation expectations for January and February 2023, 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						
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
Jan-Feb 2023	8.92	9.07	8.99	8.95	9.01	8.83
INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS						
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
Jan'23 Survey	7.2	7.2	7.6	7.2	7.4	7.1

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

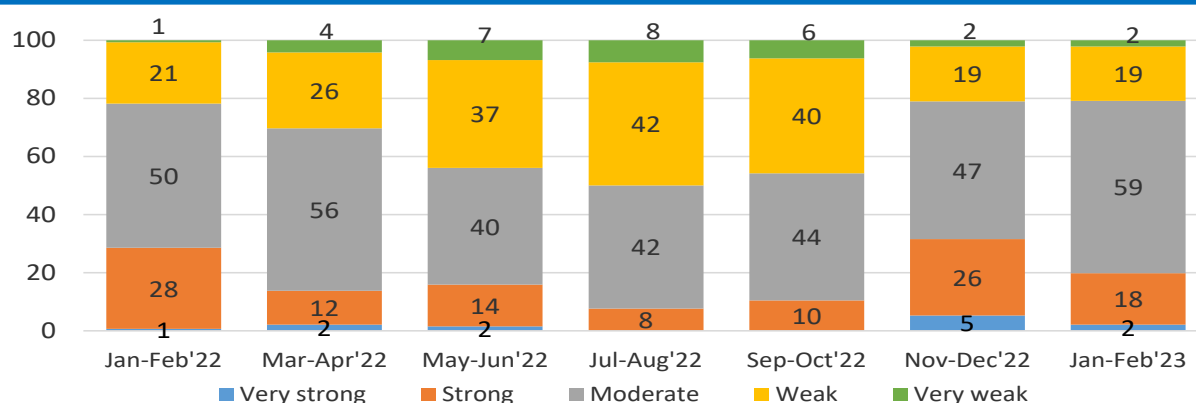
6. ECONOMIC ACTIVITY

However, 79 percent of the respondents cited elevated inflation levels, high cost of living, high energy prices, weak demand, and high input costs as risks to expected economic activity.

A stacked bar chart illustrating the perceived impact of the pandemic on businesses across seven time periods. The Y-axis represents the percentage of respondents (0 to 100). The X-axis shows the time periods: Jan-Feb'22, Mar-Apr'22, May-Jun'22, Jul-Aug'22, Sep-Oct'22, Nov-Dec'22, and Jan-Feb'23. The legend indicates five categories: Very strong (blue), Strong (orange), Moderate (grey), Weak (yellow), and Very weak (green). The data values are as follows:

Time Period	Very strong	Strong	Moderate	Weak	Very weak
Jan-Feb'22	0	26	72	3	0
Mar-Apr'22	0	18	72	10	0
May-Jun'22	0	11	68	18	3
Jul-Aug'22	0	3	66	31	0
Sep-Oct'22	0	7	85	7	0
Nov-Dec'22	0	29	66	5	0
Jan-Feb'23	3	24	68	5	0

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 2023

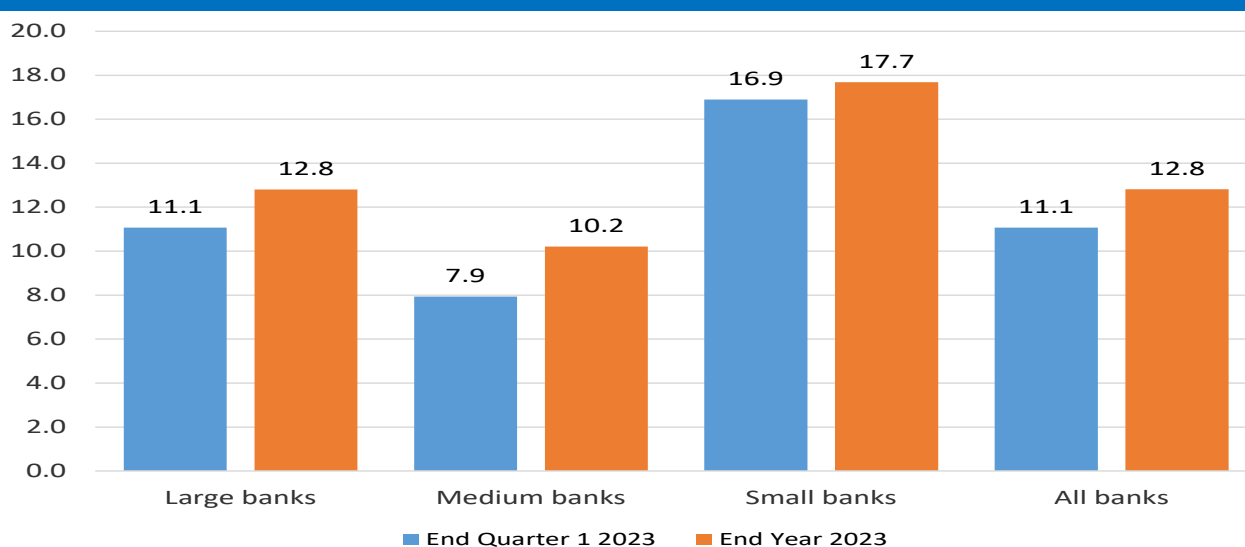
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to the private sector in 2023 relative to 2022. Respondents expected sustained increase in private sector credit growth in 2023 relative to 2022 (**Chart 3**).

59 percent of the respondents expected private sector credit growth to be supported by increased credit demand following improved economic activity as businesses resume operations after the festive period, and as schools reopen for the new academic year.

Additionally, 35 percent of the respondents expected the rollout of new innovative lending solutions, increased uptake of loans through the digital channel, and ease of access to funds by borrowers due to risk-based pricing to support increase in private sector credit growth.

However, risks to private sector credit growth included higher interest rates, which were constraining consumer demand, weak performance of critical sectors e.g., agriculture, and expected reduction in Government spending that is likely to reduce infrastructure financing.

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



7.2. Expected demand for credit

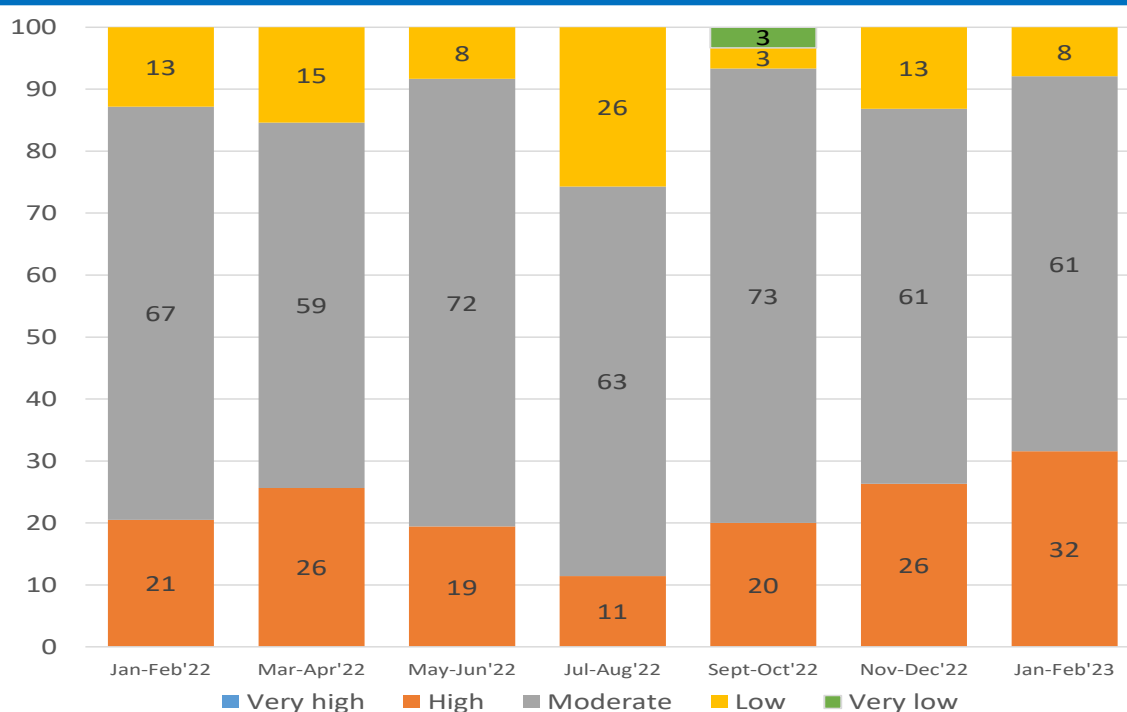
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. November and December 2022), and their expectations for January and February 2023 (**Chart 4**).

88 percent of bank respondents expected demand for credit for various purposes including business expansions and resumption of business activities

after the festive season, personal loans for school fees with the expected double transition to form one and the Junior high school class, and from learning institutions as the academic year begins.

However, 80 percent of the respondents cited high inflation, increased cost of doing business, reduced margins, subdued income, reduced disposable incomes for loan repayment and the rise in interest rates as risks to demand for credit in the next two months.

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



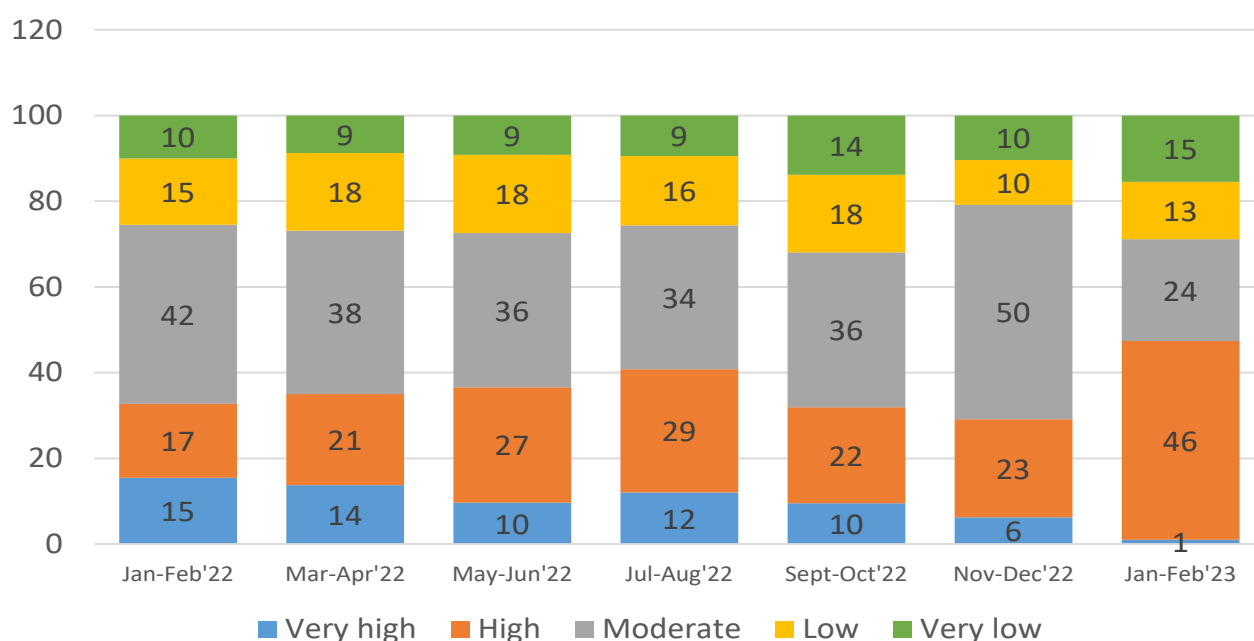
7.3. Expected demand for credit by non-bank private sector

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. November and December 2022), and their expectations for January and February 2023 (**Chart 5**).

Non-bank respondents cited demand for credit for working capital financing requirements (33

percent respondents), business expansions and improvement of facilities, meeting business obligations, procurements and purchases (29 percent respondents), to cater for high cost of inputs due to high inflation (24 percent respondents), and to cushion themselves as a result of slowdown in collections/ payments by customers (19 percent respondents).

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 projected economic growth rates for the country in 2023, in the next 2 years (2024), and in the next 5 years (2027).

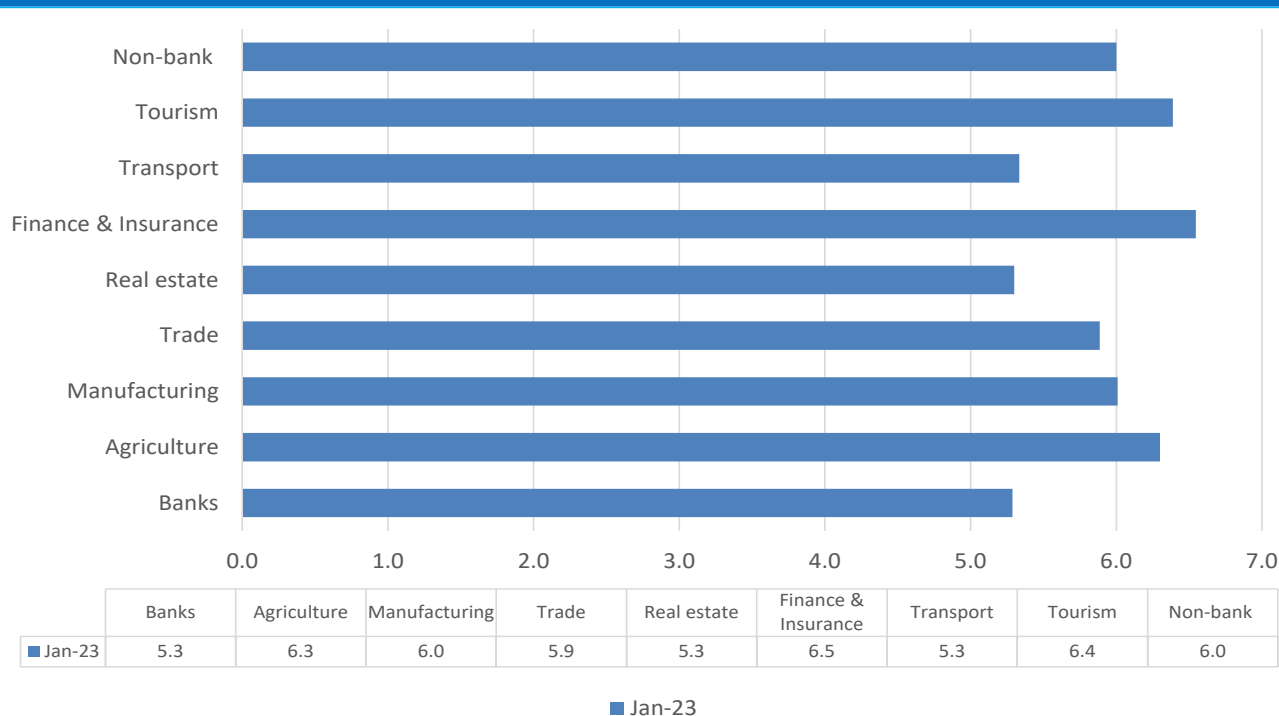
Respondents expected economic growth to remain resilient in 2023 **(Charts 6 & 7)**.

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

the respondents expected support to come from a rebound in agriculture due to improved weather patterns.

However, risks to growth expectations in 2023 included slowdown in the global economy especially the main trading partners in Europe, Asia and US, dependence on rain-fed agriculture due to climate change and dry weather conditions, elevated inflation, and fiscal consolidation strategy in place to manage low fiscal space.

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 (2024) and the next 5 years (2027) (percent)



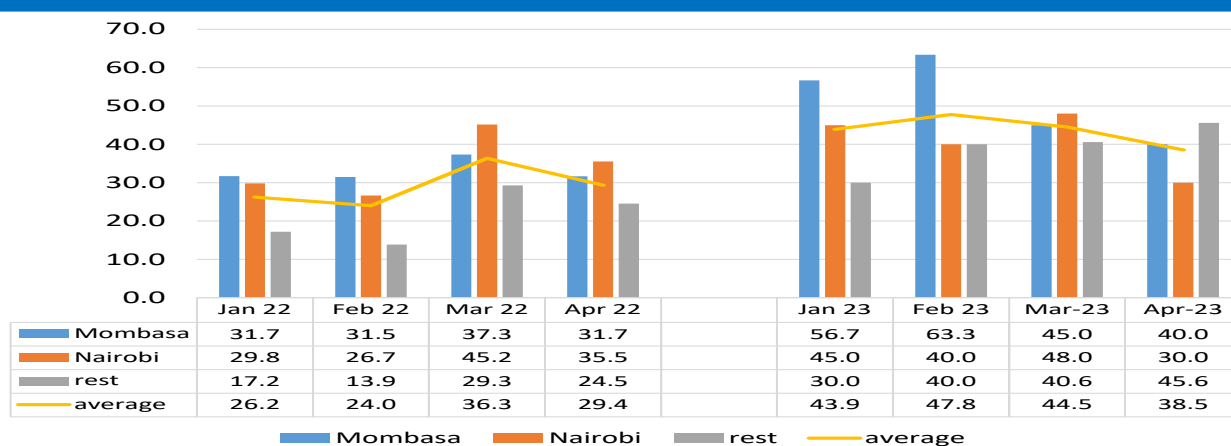
9. OPTIMISM ON THE ECONOMIC PROSPECTS

9.1. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for January, February, March, and April. Results showed higher bookings compared to a similar period last year, largely attributed to extended school holidays and increased foreign bookings due to winter conditions abroad **(Chart 8)**.

Business and conferencing bookings were high, from both the local market and foreign companies with establishments in the country, and those looking for investment opportunities in the country.

Chart 8: Hotel forward bookings (January – April 2023)



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 nonbank private sector firms **(Charts 9 & 10)**.

Respondents (62 percent) attributed their optimism about the country's economic prospects to proactive economic policies, initiatives and interventions by the new government geared towards economic growth and sustainability, coupled with general optimism by the population which is expected to improve investor confidence and propel economic growth.

In addition, respondents attributed their optimism about economic prospects to resilience of the private

sector, anchored by a strong and growing consumer base and improved access to credit due to risk rating process, increased credit to SMEs and the private sector and enhanced tax revenue collection.

However, 33 percent of the respondents indicated that the fiscal consolidation strategy being implemented through reduced recurrent and development expenditures is likely to subdue household savings, overall demand and slow down economic activity.

In addition, 33 percent and 22 percent respondents, respectively, cited low agricultural production due to dependence on rain-fed agriculture and elevated inflation, weak local currency and high interest rates, as risks to their optimism.

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

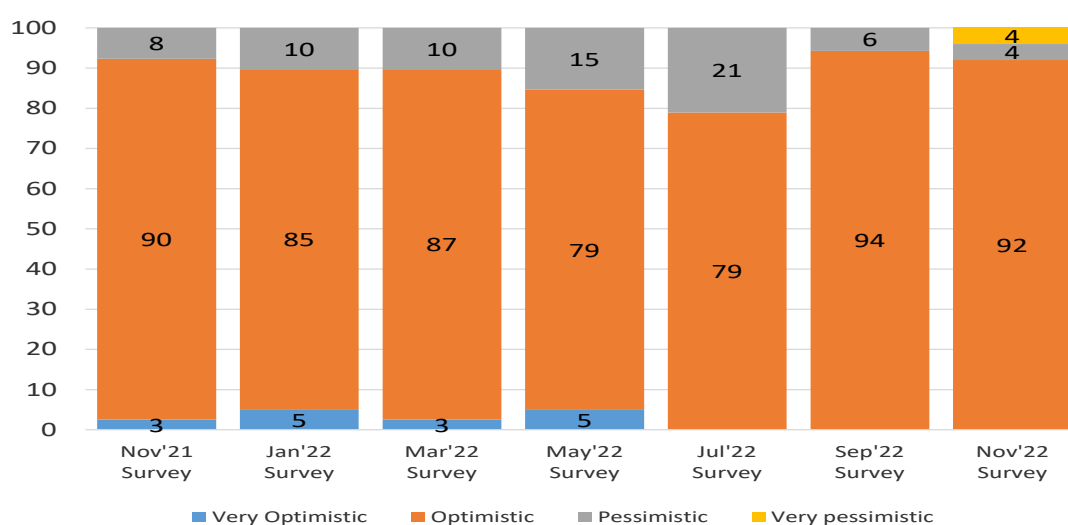
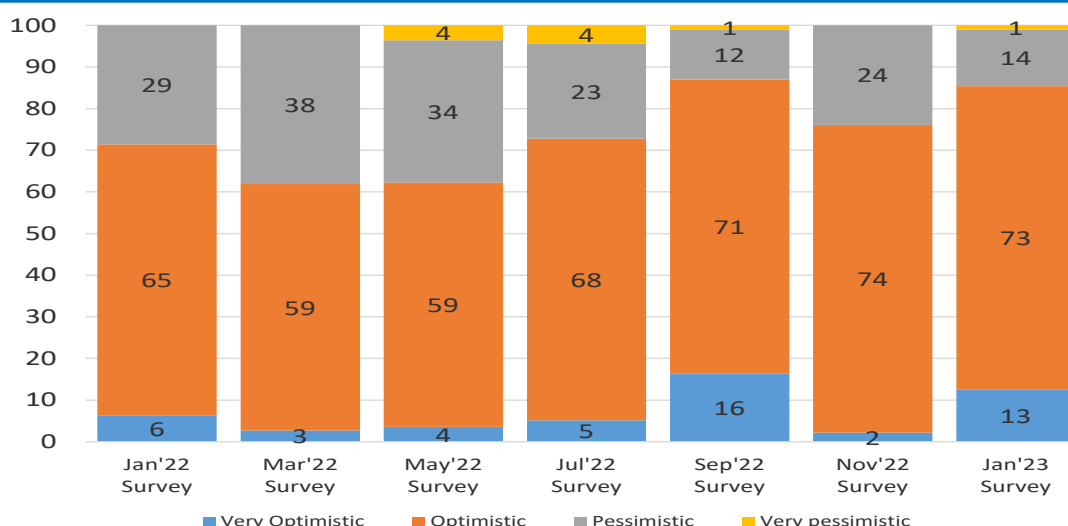


Chart 10: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



10. EXPECTED CHANGES IN EMPLOYMENT

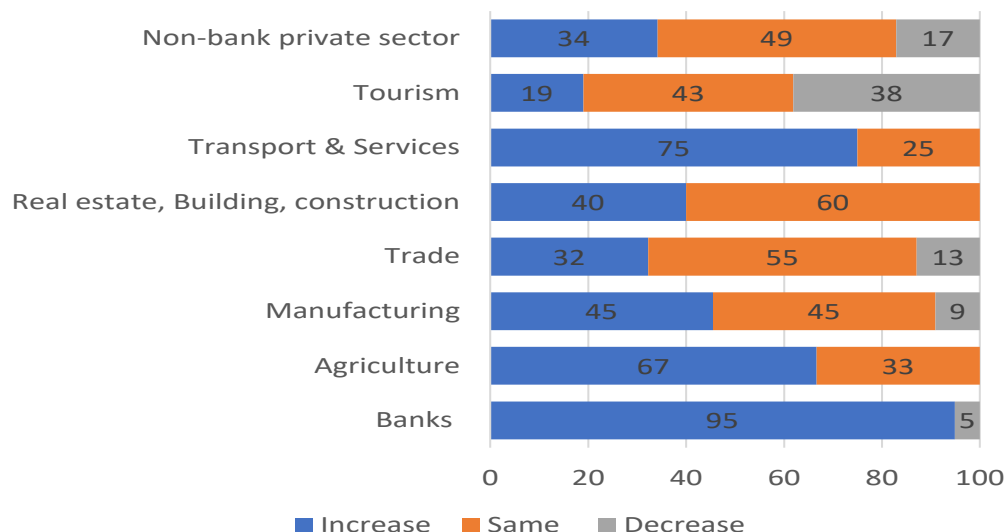
The Survey asked respondents to indicate their expectations regarding change in the number of employees in their respective institutions in 2023 relative to 2022. Results showed that key firms expected to increase employment in 2023 relative to 2022 (**Chart 11**).

Bank respondents expected employment to be supported by planned business growth, expansions and business remodelling and growth in business volumes and expected stability in the country.

However, banks expected to continue with digital adoption strategies, increased automation of processes and cost cutting measures which could result in minimal reduction of operational resources.

Non-bank respondents expected employment to be largely supported by improved business, but expected seasonal factors, e.g., end of festive season demand for casual workers by hotels, and automation, including optimization of processes and enhanced technology to help reduce costs, but lead to some merged roles and likely redundancies.

Chart 11: Expectations on employment levels for 2023 relative to 2022 (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 January and February 2023.

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

However, respondents expected some pressure on the Shilling to come from strong dollar demand by importers, strong dollar globally, government's external debt obligations and slower export growth as recession hits key markets.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested that enhanced policies to support credit growth in the wake of the tough operating environment in most sectors, 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 MSME's would improve business environment for the sector.

Non-bank private firms on the other hand suggested the 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.

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 thus job creation.



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