



**Central Bank of Kenya**

# **Monetary Policy Committee Market Perceptions Survey**

September 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 September 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 (July and August), and expectations for the next two months (September and October), the next one year (September 2022 – August 2023), the next two years (September 2022 – August 2024), and the next five years (September 2022 – August 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 September 2022 Survey was 51 percent of the sampled institutions. The respondents comprised 34 commercial banks, 1 mortgage finance institution, 8 micro-finance banks, and 137 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 2022 Market Perceptions Survey included:

1. Overall Inflation expected to remain elevated in the next 2 months.
2. Economic activity expected to increase in September and October.
3. Economic growth expected to remain resilient in 2022.
4. Banks expect an increase in private sector credit growth in 2022.
5. Increased Optimism in the country's economic prospects with renewed confidence following the conclusion of the elections.
6. Strong forward hotel bookings in next three months.

## 5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (September and October 2022), the next 12 months (September 2022 – August 2023), the next 2 years (September 2022 – August 2024), and the next 5 years (September

2022 – August 2027) (**Table 1 & 2**). Respondents expected inflation to remain elevated in the next 2 and 12 months.

65 percent respondents expected elevated energy prices following the withdrawal of fuel subsidy to push up the cost of transport and manufactured goods. Increase in the cost of electricity was also expected to increase costs for manufacturers and households, hence increase inflation in the next 2 months.

57 percent respondents expected higher food prices on account of reduced agricultural output, lifting of food subsidies and high input costs to exert upward pressure on inflation.

Additionally, 35 percent respondents expected the impact of a stronger US dollar and high global commodity prices, exacerbated by the global inflation and global geopolitical events such as the Russia/Ukraine war, to further increase imported inflation in the next 2 months.

Nevertheless, about 67 and 33 percent respondents respectively, expected some respite on inflation from the recently reported lower global oil prices and lower food prices supported by seasonal supply from the ongoing/expected harvest.

**Table 1: Inflation expectations for September and October 2022, 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
<b>INFLATION EXPECTATIONS FOR THE NEXT 2 MONTHS</b>						
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
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
<b>INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS</b>						
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
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

In the medium term, respondents expect inflation to remain within the target levels supported by eased geopolitical tensions and political jitters, improvement in supply of food and supply chains and application of sound monetary policy measures.

**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	6.1	6.7	6.9	6.3	5.3	5.8
Next 5 years	5.6	6.1	6.1	5.8	5.1	5.5

## 6. ECONOMIC ACTIVITY

### 6.1. Economic activity

The September 2022 Market Perceptions Survey sought bank and non-bank private sector firms’ assessment of economic activity in July and August 2022, and their expectations for September and October 2022. Respondents expected economic activity to increase in September and October following the return to normalcy of businesses following a quick and peaceful conclusion of the elections **(Chart 1 & 2)**.

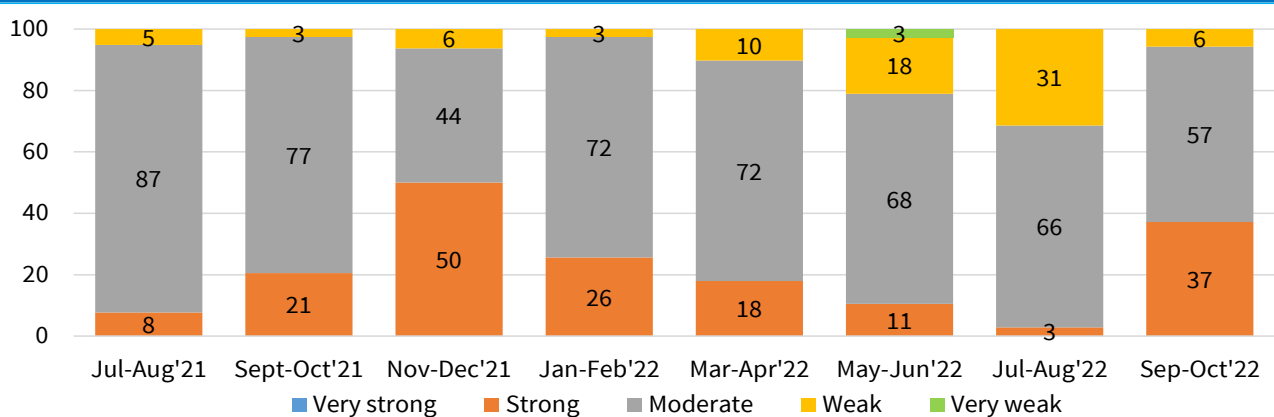
82 percent respondents anticipated increased economic activity largely supported by positive sentiments and investor confidence resulting in a rebound in production and sales from the slowed

activity in the two months prior to the elections as uncertainty wanes following a peaceful and quick political transition.

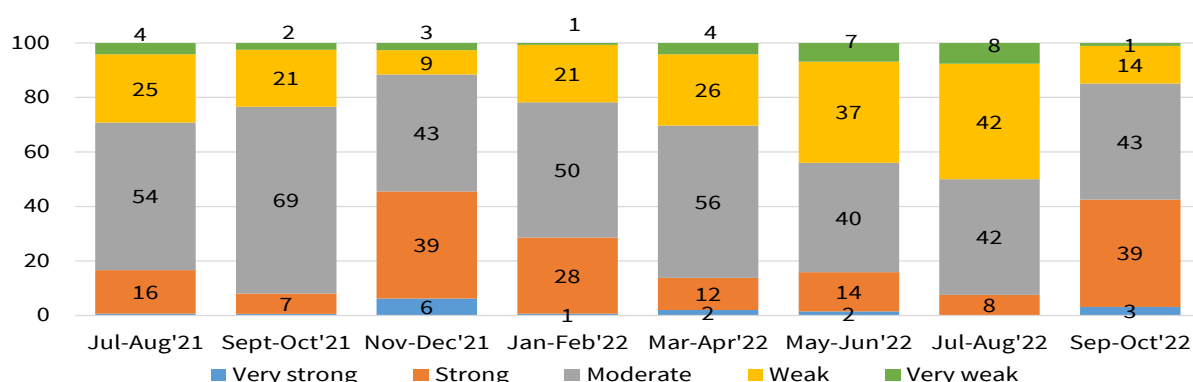
21 percent respondents expected continued growth in bank credit to the private sector, increased uptake of loans through digital channels, and lower credit risk as business operations improve with reduced political risk.

Respondents indicated that the risks to economic activity in September and October included high input costs high interest rates and high inflation, cited by 67 percent respondents, and expected slow commencement of Government spending as the new administration settles in, cited by 33 percent respondents.

**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 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 3**).

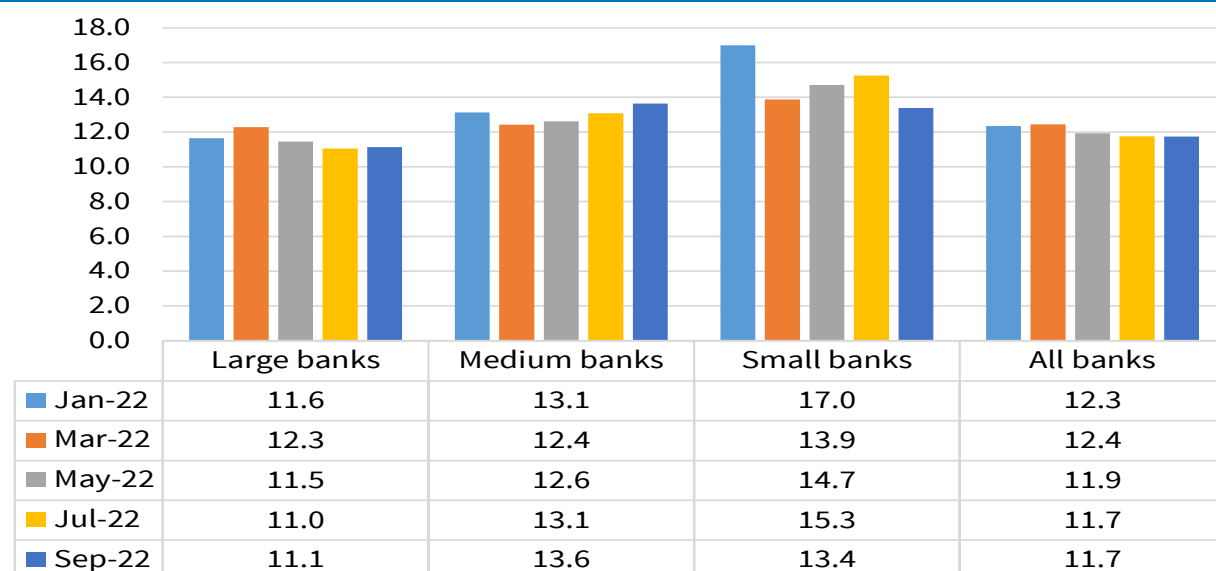
59 percent respondents expected private sector credit growth to be supported by a rebound of the economy after the elections, in business segments such as MSMEs, infrastructure, energy, and manufacturing. Respondents also expected

growth to pick up in Q4 with recovery of economic activity as business activities return to normal.

In addition, 41 percent of respondents expected private sector credit growth to be boosted by increase in credit demand resulting from the need to meet business and personal financial needs as the business environment improves, and due to increases in commodity prices.

However, 73 percent of respondents cited high inflation, high interest rates and increase in the cost of doing business as risks to private sector credit growth.

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



## 7.2. Expected demand for credit

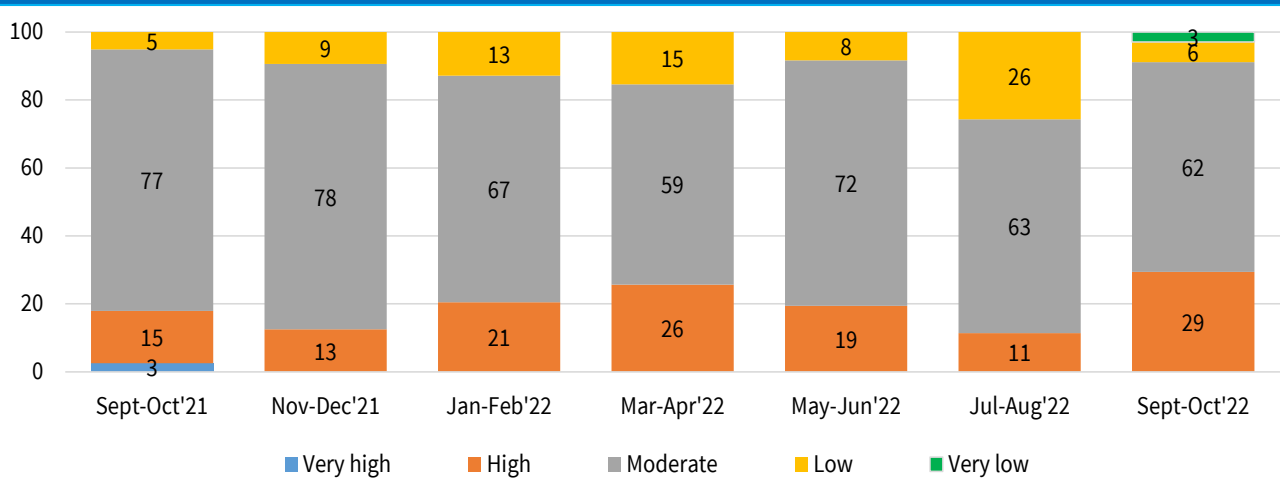
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. July and August 2022), and their expectations for September and October 2022 (**Chart 4**).

83 percent of respondents expected credit demand to increase in September and October on account of normal resumption of economic

activities as clients return to full operations and roll out investment plans post-elections, and increased confidence levels by investors and business community.

However, increasing inflationary pressure and the Russia- Ukraine war, affecting international markets and hampering international trade, were cited by 50 percent respondents, respectively as risks to the demand for credit in the next 2 months.

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



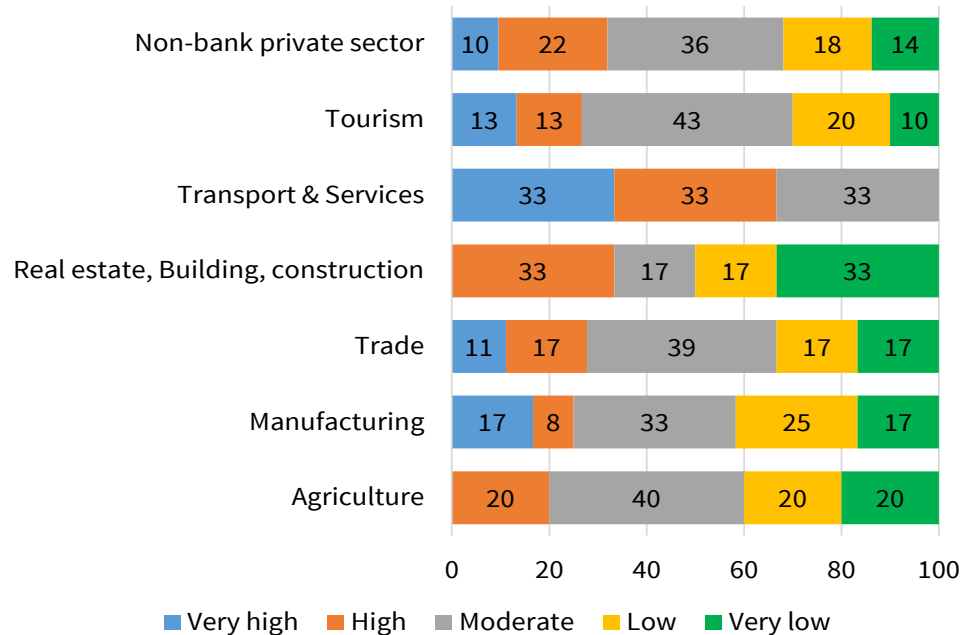
## 7.3. Expected demand for credit by non-bank private sector

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. July and August 2022), and their expectations for September and October 2022 (**Chart 5**).

Respondents expected credit demand to increase in September and October as they sought to boost business finance and working capital requirements, and as they recover from Covid-19 effects. In addition, respondents expect to borrow more to support increasing businesses activities post elections and cater for the high inflation effects.



**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 estimated economic growth rates for the country in 2022, in the next 2 years (2023), and in the next 5 years (2026).

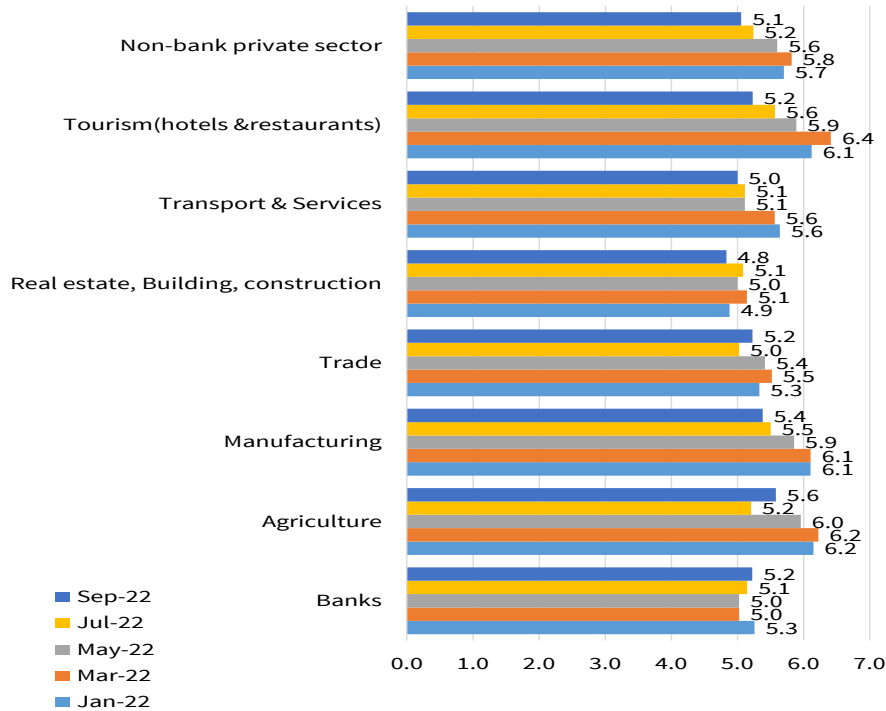
Respondents expected 2022 economic growth to rebound in the remainder of the year after the slowdown experienced prior to the elections, largely due to renewed confidence after a peaceful election and transition **(Charts 6 & 7)**.

83 percent of respondents expected economic growth for the remainder of 2022 to be supported

by improved business sentiments brought about by the smooth transition of power after the just concluded elections.

However, risks to growth expectations in 2022 included the impact of the wait and see attitude prior to the elections on foreign direct investments, businesses and ongoing development projects by government and private sector, and subdued economic activity as a result of higher inflation owing to higher costs of fuel, raw materials and other inputs, as cited by 63 percent and 37 percent respondents, respectively.

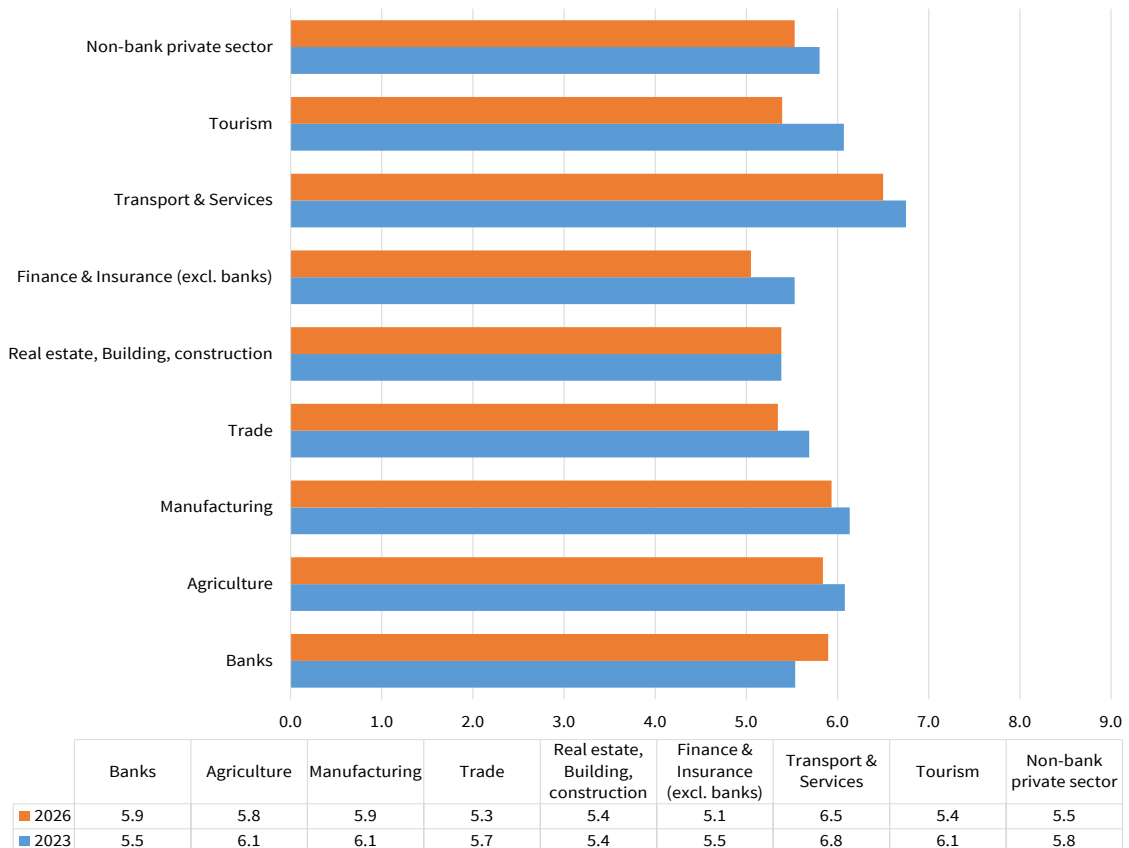
**Chart 6: Expectations on economic growth for 2022 (percent)**



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 (2023) and the next 5 years (2026) (percent)**



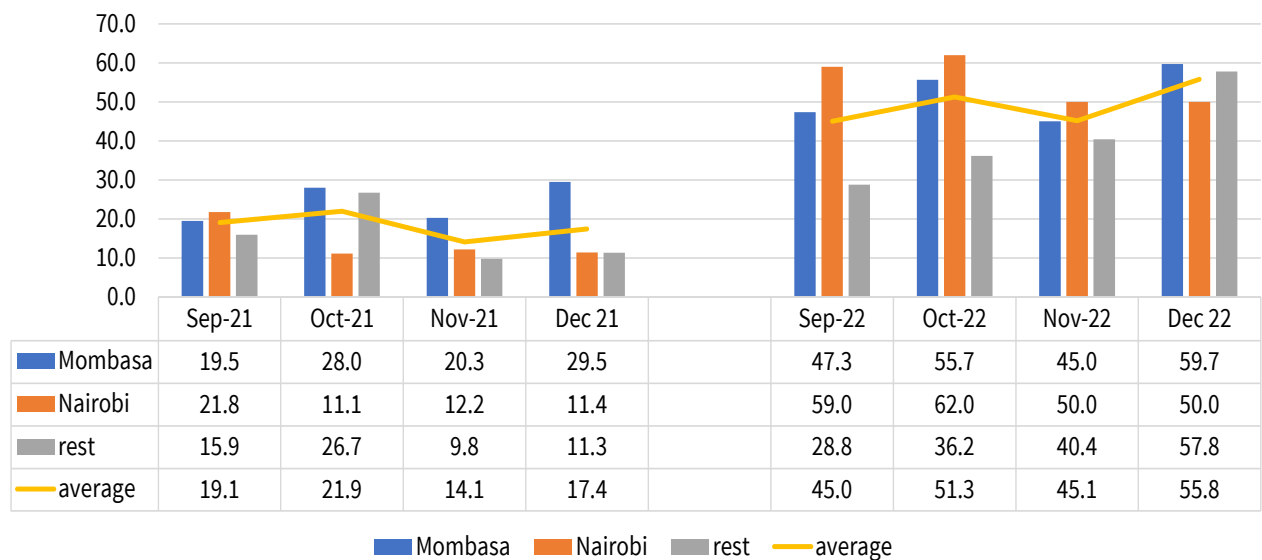
## 9. OPTIMISM ON THE ECONOMIC PROSPECTS

### 9.1. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for September, October, November, and December. Results

showed increased bookings largely attributed to Covid recovery, economic recovery, and resumption of international travel (**Charts 8**).

**Chart 8: Hotel forward bookings (September – December)**



### 9.2. 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. The results showed sustained optimism by respondents across banks and nonbank private sector firms (**Charts 9 & 10**).

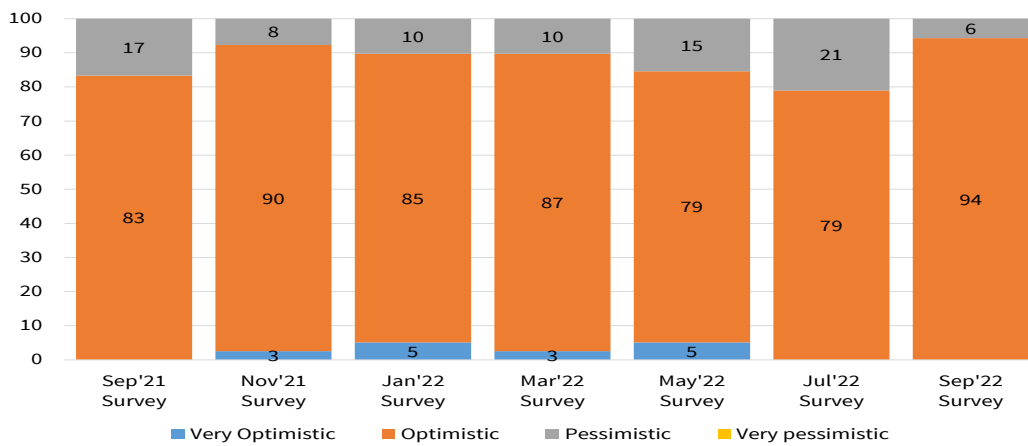
Respondents attributed their optimism about the country's economic prospects to easing political uncertainty following a peaceful conclusion of the elections, expected to boost local and foreign investor confidence, bounce back in business spending and investments, and provide a stable

political environment that nurtures bilateral and international trade (81 percent respondents).

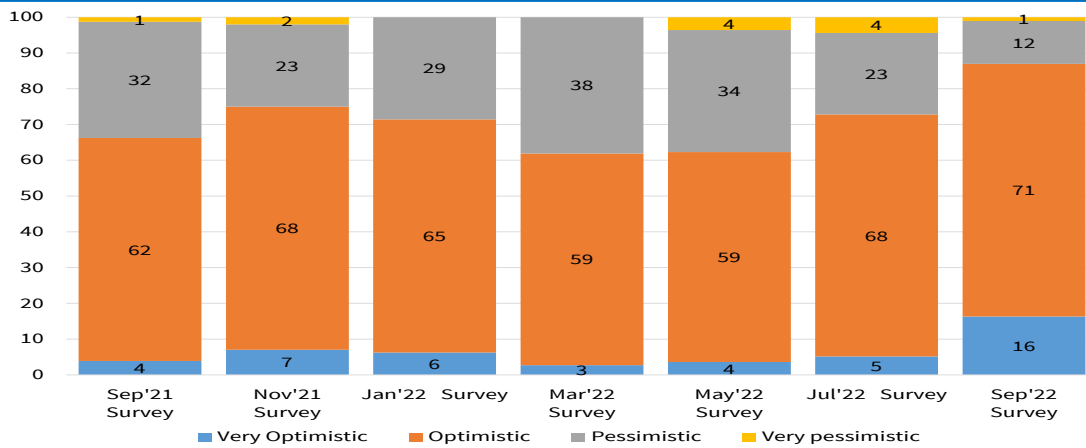
In addition, 17 percent respondents cited improved economic activity following the reduction in COVID -19 cases locally and globally on the back of increased vaccinations, while 14 percent respondents cited reduced global impact of the Ukraine war and early signs of recovery in the global economy as reasons for increased optimism on economic prospects.

However, high inflation, high interest rates, high cost of production and impact of Russia - Ukraine war were mentioned as risks to this optimism by 60 percent and 20 percent respondents, respectively.

**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

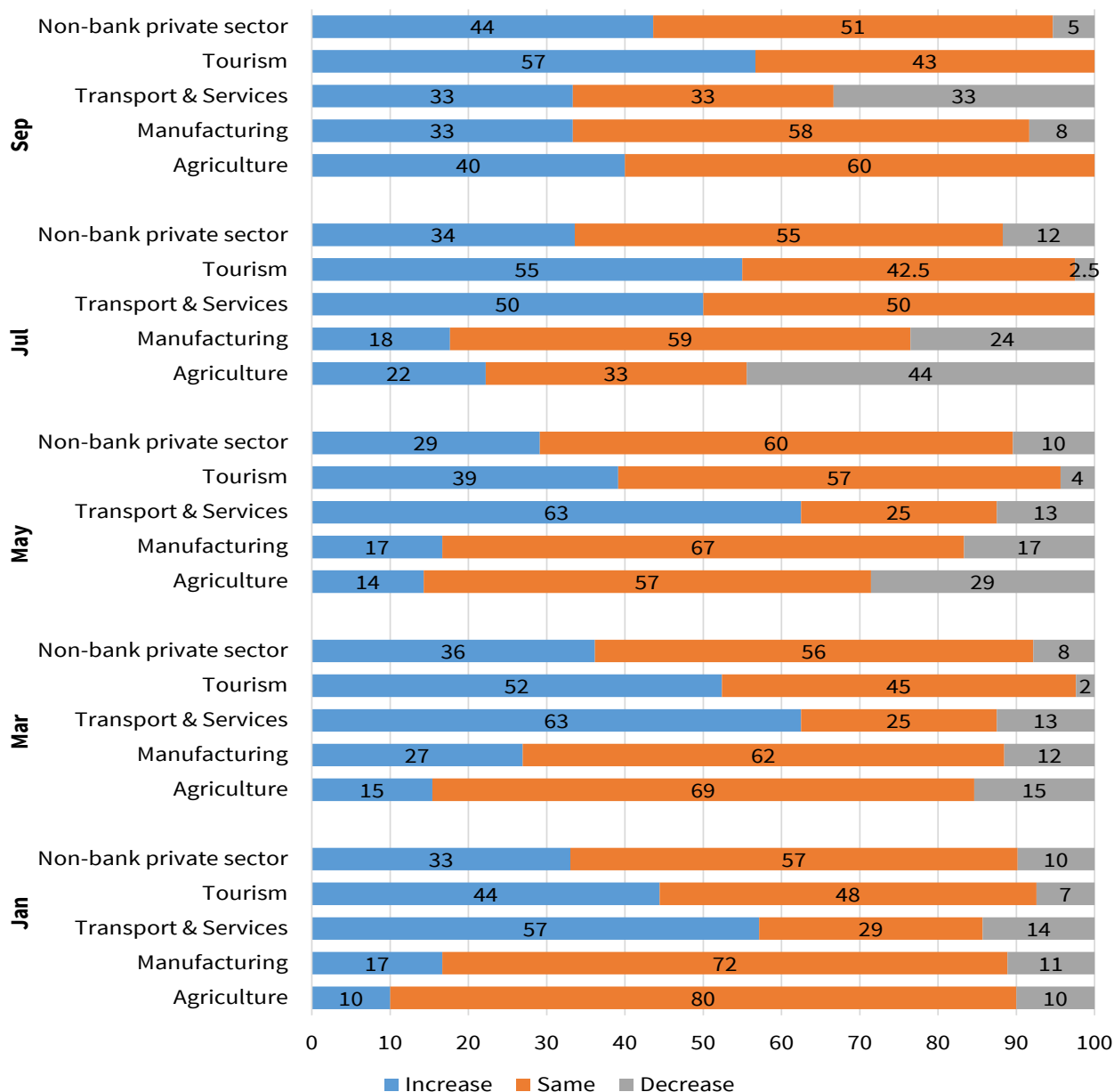
The Survey asked respondents to indicate their expectations regarding change in the number of employees in their respective institutions in 2022 relative to 2021.

Respondents expected employment to either increase or remain the same in 2022 relative to 2021 for all sectors, except the transport and services sector (**Chart 11**).

Increased employment expected from new hires supported by increased business operations post Covid-19 and post-elections.

However, some business entities indicated that they expect to leverage on ICT to reduce manual operations.

**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 September and October 2022.

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

However, respondents expected some pressure on the Shilling from the stronger US Dollar and higher import bill, relatively high energy prices, and interest rate hikes in developed markets to put pressure on the local currency.

## 12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested that the 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 SME's would improve business environment for the sector.

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

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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