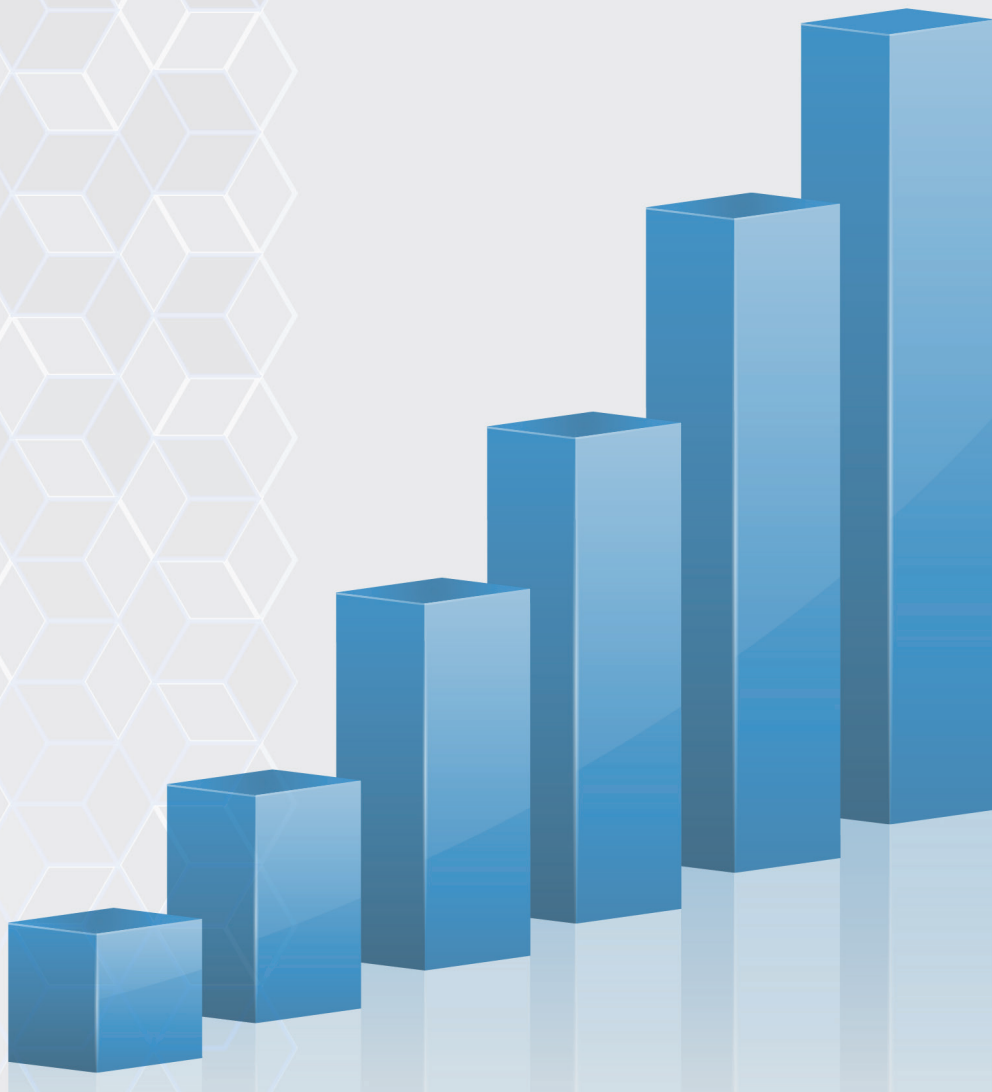




Central Bank of Kenya

Monetary Policy Committee Market Perceptions Survey

November 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 rates. 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, focusing 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 November 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 (September and October), and expectations for the next two months (November and December), the next one year (November 2021 – October

2022), and the next two years (November 2021 – October 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, 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 356 private sector firms comprising 38 commercial banks, 1 mortgage finance institution, 14 microfinance banks (MFBs) and 303 non-bank private firms, including 84 hotels, through questionnaires sent in hard copy and by email. The overall response rate to the November 2021 Survey was 72 percent of the sampled institutions. The respondents comprised 38 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 205 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 November 2021 Market Perceptions Survey included:

- Economic activity expected to increase in November-December relative to September-October with sustained recovery across economic sectors.
- Respondents expected their operation levels to improve in November-December with the economic recovery, but to remain below the pre-COVID levels.
- Respondents expect economic growth to rebound in 2021 and remain strong in 2022.
- Banks expect an increase in private sector credit growth in 2021.
- Respondents expected inflation to decline in the next 2 months, and to remain within the target range.
- Optimism in the country's economic prospects increased, supported by expected economic recovery and growth, but COVID-19 uncertainties remain.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to indicate their expectations of overall inflation rates for the next 2 months, November and

December 2021, and for the next 12 months (November 2021 – October 2022) (**Table 1**).

Approximately 36 percent of respondents, expected a decline in inflation in the next 2 months due to the Government intervention to reduce fuel prices, and lower prices for some food items supported by the current short rains.

However, 85 percent of respondents expected elevated food prices due to lower than anticipated rains and drought conditions in some parts of the country, while 74 percent expected increased demand for both goods & services as the economy recovers after full re-opening, and for consumables during the festive season. These factors were expected to exert upward pressure on inflation. In addition, 30 percent of respondents expected the elevated fuel prices and recent movements in the exchange rate of the Kenya Shilling against the US Dollar to exert moderate pressure on inflation in the next 2 months.

In the next 12 months, respondents expect recovery in demand after the COVID-19 pandemic period to exert moderate pressure on inflation.

Table 1: Inflation expectations for November and December 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
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
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
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
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

6. ECONOMIC ACTIVITY

6.1. Economic activity

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

Approximately 95 percent of respondents expected improved economic activity in November – December relative to September – October on account of the reopening and recovery of more sectors and businesses in the economy with a more flexible business environment enabled by the lifting of the curfew.

In addition, 69 and 36 percent of respondents, respectively, expected a pick-up in demand during the festive and back to school seasons, and the notable decline in the spread of COVID-19, ongoing vaccination campaigns, economic recovery from the effects of the pandemic, to support economic activity in the next 2 months.

However, respondents indicated that COVID-19 pandemic remained the main risk to economic activity, pointing out the uncertainty, lingering effects of the virus, and to short school holidays, as factors likely to result in lower than usual festive season activity with less travels (38 percent respondents).

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

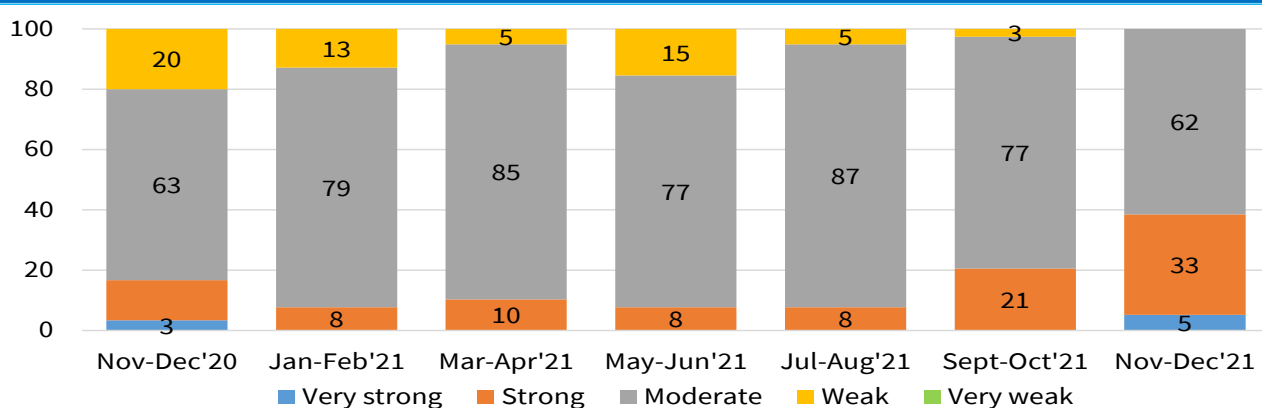
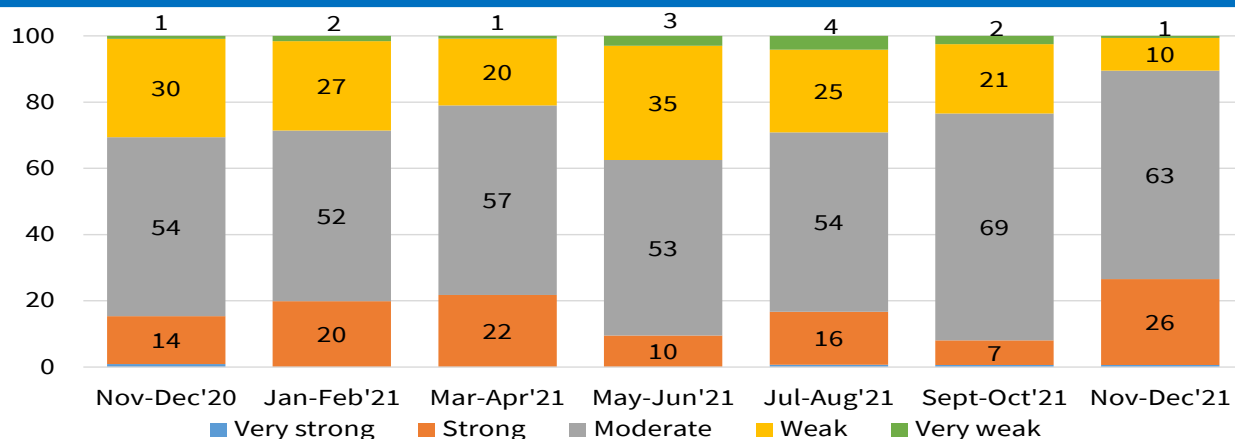


Chart 2: Expected economic activity by non-bank private sector (percent respondents)



6.2. Firms' Operations levels

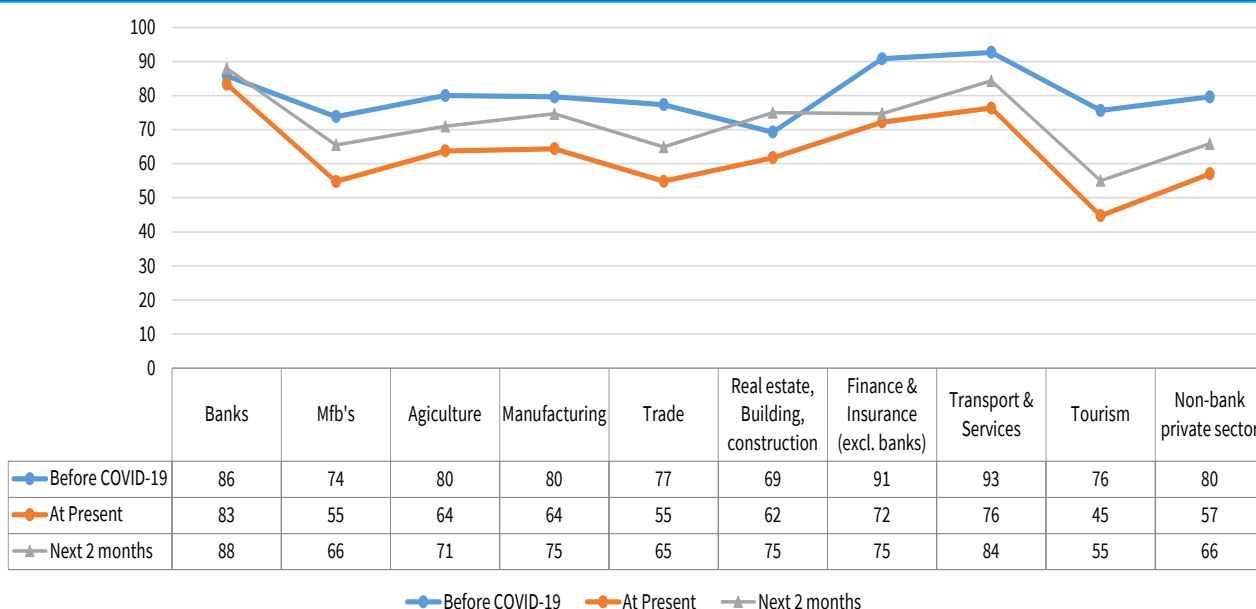
The Survey sought to find out from respondents the levels of operations including functioning, running and performance, before the onset of COVID-19, at the present time, and expectations over the next 2 months.

The results showed recovery in operations since the onset of the pandemic, but that firms were yet to get back to pre-COVID levels of operations **(Chart 3)**.

Respondents expected operations to improve in the next 2 months supported by a return to normal or full operations and increased activities, a faster recovery of the economy especially the sectors hard hit by the pandemic, ongoing vaccinations, adaptation to working in the COVID-19 environment, and improved productivity (78 percent of respondents).

However, some respondents noted that SME's recovery was slow due to the relatively depressed family incomes amidst the condensed school calendar (50 percent respondents).

Chart 3: Operation levels of banks and non-banks (percent)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit in 2021

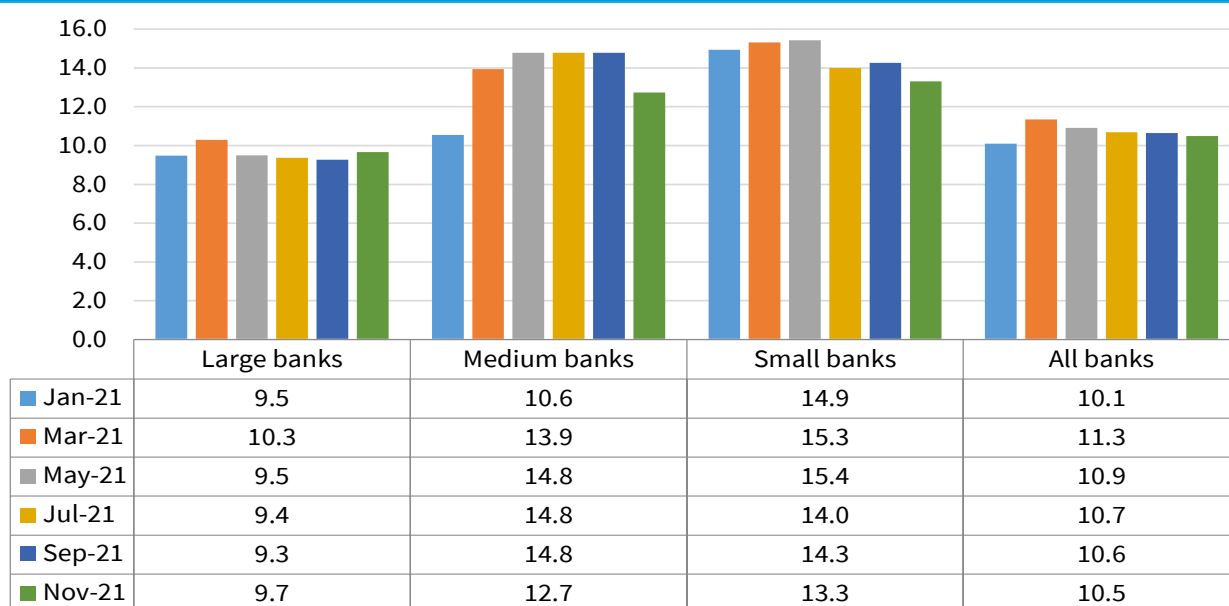
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2021 relative to 2020. Respondents expected an increase in private sector credit growth in 2021 relative to 2020 **(Chart 4)**.

Approximately 94 percent of respondents expected private sector credit growth to be supported by recovery in various sectors of the economy after full reopening of the economy. Other reasons for the expected increase in private sector credit growth included adequate liquidity

in the banking sector deployed to productive sectors and increased economic activities, cited by 70 percent respondents each.

Risks to private sector credit growth cited by respondents included credit risks due to COVID-19 (45 percent respondents), general slowdown occasioned by Covid-19 infections likely to lead to decline in credit support to certain sectors (30 percent respondents), and possible effects of the suspension of CRB listing (23 percent respondents).

Chart 4: Expectations on private sector credit growth (percent)



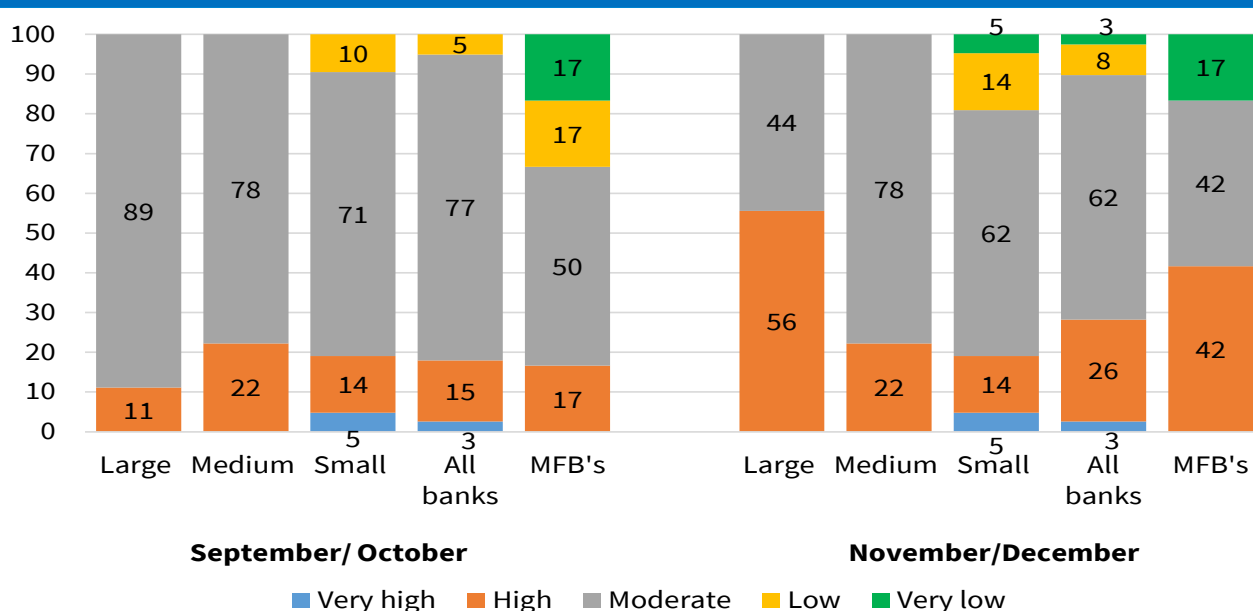
7.2. Expected demand for credit

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. September and October), and their expectations for November and December 2021 (**Chart 5**).

Respondents indicated that firms scaling up operations to meet demand with the lifting

of the curfews (55 percent respondents) and improvement in the level of economic activity in most of the sectors driven by resumption of night travel (40 percent respondents), would increase demand for credit in the next 2 months. In addition, 32 percent of respondents expected the need to meet cash flow requirements for the holiday season to increase demand for credit in the next 2 months.

Chart 5: 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 and 2022. Respondents expected economic growth to rebound in 2021 and remain strong in 2022 (**Table 2**).

Approximately 80 percent of respondents attributed expected 2021 economic growth to rebound in sectors that had been adversely affected by the pandemic such as tourism, education, trade and manufacturing occasioned by the reopening of the economy following the easing of COVID 19 restrictions

About 68 and 40 percent of respondents, respectively, expected increase in private

consumption and investment, and continued Government spending on infrastructure, to support 2021 economic growth.

However, 76 percent respondents expected the COVID-19 pandemic to remain a risk to the expected pick-up in growth citing the uncertainty both locally and globally, the slow vaccine rollout in Kenya, mutations of the virus, and subdued activity in some sectors such as tourism.

In addition, respondents expected growth in 2022 to be dampened by both COVID-19 and political activities during the election year (85 percent respondents).

Table 2: Expectations on economic growth for 2021 and 2022 (percent)

	2021 growth expectations						2022 growth expectations	
	Jan-21	Mar-21	May-21	Jul-21	Sep-21	Nov-21	Nov-21	
Banks	3.5	5.1	5.5	5.6	5.2	5.4	5.2	
Agriculture	4.7	5.4	6.1	5.9	5.6	6.0	5.6	
Manufacturing	5.1	5.1	5.4	5.4	5.4	5.9	5.6	
Trade	4.5	5	5.4	5.6	6.2	6.2	5.5	
Real estate, Building, construction	4.7	5.1	5.2	5.8	5.2	5.5	5.1	
Finance & Insurance (excl. banks)	5.1	5.1	5.2	5.3	5.8	5.4	5.1	
Transport & Services	4.6	4.5	5.2	5.9	4.6	5.1	4.5	
Tourism(hotels & restaurants)	4.7	4.7	5.3	5.5	5.7	5.9	5.2	
Non-bank private sector	4.7	5.2	5.6	5.7	5.7	5.9	5.4	

9. OPTIMISM ON THE ECONOMIC PROSPECTS

The November 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 6 & 7**).

About 70 percent of respondents cited the lifting of the curfew and opening up of activities in all sectors, increasing global and domestic demand and the decline in the spread of the virus as reasons for their optimism on economic prospects.

In addition, approximately 58 percent respondents expected the implementation of the FY2021/2022 Government Budget, including the Economic Stimulus Programme, to stimulate the economy, while 30 percent of respondents expected the continued vaccination exercise to help in the management of COVID- 19 situation in the country.

However, 58 percent respondents cited the COVID-19 pandemic and the uncertainty surrounding it as the main risk to this optimism, followed by increased political activity.

Chart 6: Optimism by Banks on Economic Prospects (percent)

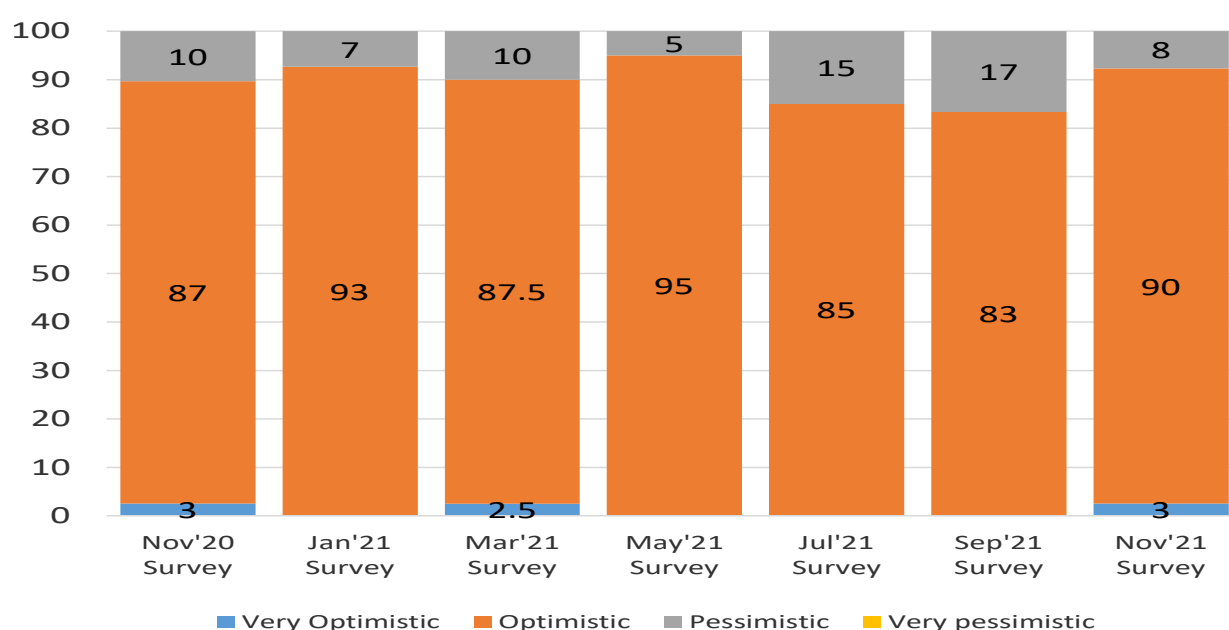
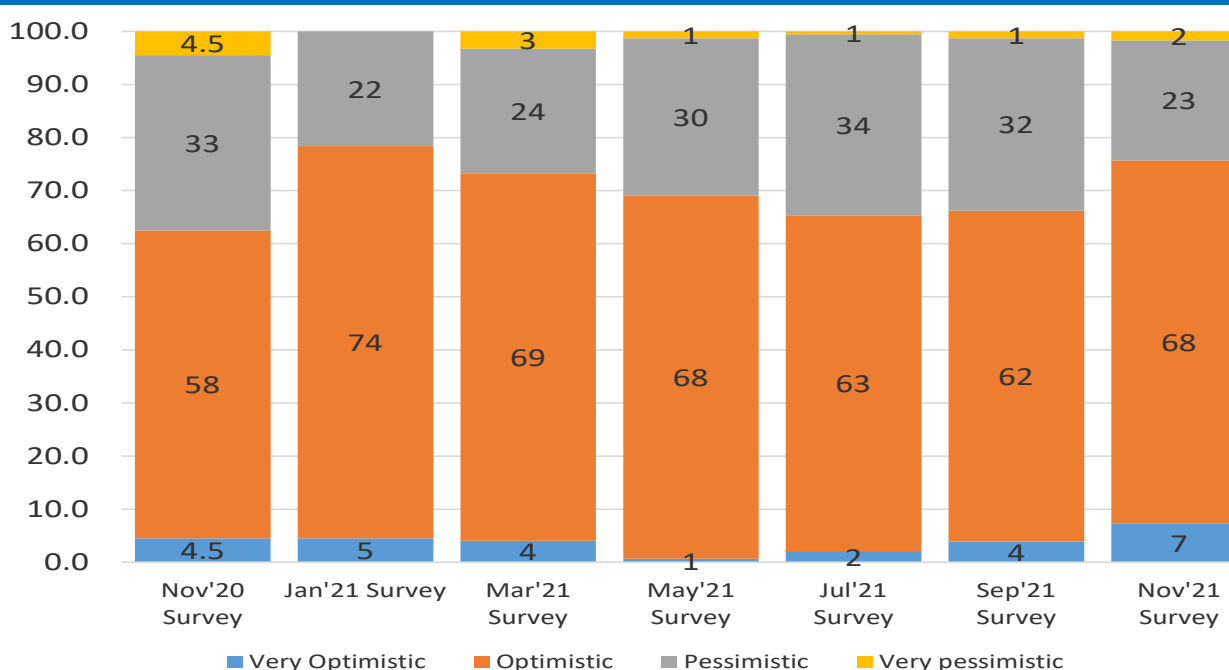


Chart 7: Optimism by Non-bank private firms on Economic Prospects (percent)



10. EXPECTED CHANGES IN EMPLOYMENT

The Survey asked respondents to indicate their expectations with regard to changes in the number of employees in their respective institutions in 2021 relative to 2020.

Non-bank private firms revised their expected employment in the November survey (**Chart 8**).

The respondents revised upwards employment expectations on account of recovery of business and increased activity levels following the lifting of the COVID-19 restrictions including the recently lifted curfew, increase in sales and revenues compared to 2020, expected boost in sales with

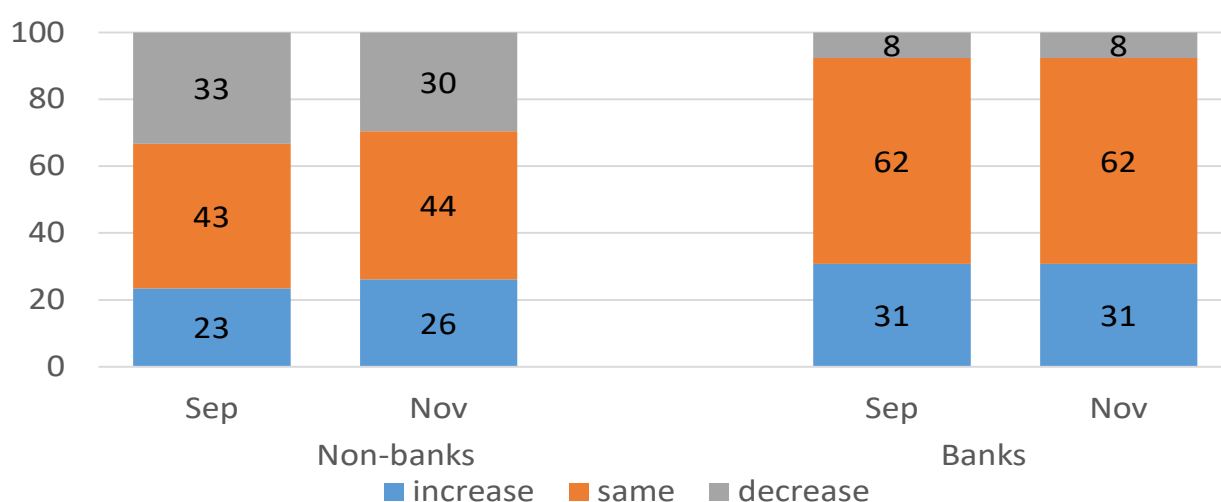
the upcoming festive season, and reinstatement of previously laid off employees. However, respondents expected the COVID-19 pandemic to remain a risk to employment.

Banks did not expect much change during this period with many having put employment on hold due to the Covid-19 pandemic and were

only recruiting for critical roles (60 percent respondents).

Banks remained focussed on improving efficiency through adoption of digital tools and innovative digital platforms.

Chart 8: 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 Kenya Shilling against the US Dollar in November and December 2021.

Respondents expressed mixed expectations with regard to the expected Shilling to US Dollar exchange rate.

They expected the Shilling to be supported by increased dollar inflows from the diaspora as

the festive season approaches, and from more receipts from tourism during this period.

However, pressure on the Shilling was expected to arise from an increasing import bill with high crude oil prices, rising demand for imported goods, especially after the lifting of the curfew, and a strong US dollar.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested that the approval of the proposed pricing policy and new products and services, and the effective use of credit reference bureaus would improve their business environment.

In addition, respondents suggested that the settlement of pending bills by the national and county governments, improved digital security, the creation of a separate and more effective legal system to resolve non-performing loans (NPLs) cases lodged to Judiciary, and implementation of risk-based pricing framework to support SME segments excluded from accessing credit, would go a long way in enhancing the business environment.

Non-bank private firms on the other hand suggested that provision of tax incentives to cushion some sectors, support to local manufacturing, access to better loans with lower interest rates and longer repayment periods would improve their business environment.

Additionally, respondents suggested that the settlement of pending bills to suppliers would enhance cash flows and in turn facilitate expansions thus create jobs. In addition, increase in vaccination efforts would ensure all sectors of the economy are fully reopened. Respondents indicated the need for a predictable tax environment.

13. CONCLUSION

The November 2021 Market Perceptions Survey revealed increased optimism in the economic activity for the months of November and December relative to September-October, due to the reopening of the economy and sustained recovery across the economic sectors. The respondents expect inflation to decline in the next two months,

and remain within the target range. While Banks expect private sector credit to growth in 2021 relative to 2021. The Survey revealed there is high optimism in the country's economic prospects which is expected to rebound in 2021 supported by expected economic activities but uncertainties remain around COVID-19 pandemic.



Central Bank of Kenya

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