Central Bank of Kenya

Monetary Policy Committee Market Perceptions Survey

July 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 July 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 (May and June), and expectations for the next two months (July and August), the next one year (July 2022 – June 2023), the next two years (July 2022 – June 2024), and the next five years (July 2022 – June 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 350 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 July 2022 Survey was 60 percent of the sampled institutions. The respondents comprised 38 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 158 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 July 2022 Market Perceptions Survey included:

1. Inflation expected to remain elevated in the next 2 and 12 months.
2. Economic activity expected to moderate in July/August with the approaching elections.
3. Operation levels of firms expected to improve gradually in 2022.
4. Economic growth expected on account of post pandemic recovery and infrastructure spending.
5. Banks expect an increase in private sector credit growth in 2022.
6. Sustained Optimism in the country's economic prospects, as respondents anticipate a peaceful conclusion of the elections.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (July and August 2022), the next 12 months (July 2022 – June 2023), the next 2 years (July 2022 – June 2024), and the next 5 years (July 2022 – June 2027) **(Table 1 & 2).** Respondents expected upward pressure on inflation in the next 2 and 12 months.

Particularly, 85 percent respondents expected higher fuel, gas and transport prices resulting from disruptions on global supply due to the war in Ukraine and tensions between Russia and the West, and a possible withdrawal of the fuel subsidy in mid – August, to exert upward pressure on inflation in the next 2 and 12 months.

Additionally, 72 percent respondents expected elevated food prices due to depressed rainfall and global supply disruptions.

Further, 23 and 17 percent respondents, respectively, expected further pressure on inflation to arise from more expensive imports resulting from a weaker Shilling relative to the US Dollar, and increased spending due to heightened political activity, in the next 2 months.

Nevertheless, about 50 percent respondents expect inflation to be moderated by Government interventions, including the increased allocation of funding to the fuel stabilization fund to cushion consumers from any adverse movement in global oil prices, and the additional subsidy on maize flour, meant to lower the cost of living, especially to the most vulnerable households.

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 EXPECTATIONS FOR THE NEXT 2 MONTHS						
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
Jul-Aug 2022	8.2	8.1	7.9	8.1	7.9	7.5
INFLATION EXPECTATIONS FOR THE NEXT 12 MONTHS						
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
Jul'22 Survey	7.8	6.7	7.1	7.6	7.1	6.8

In the medium term, respondents expect inflation to remain well anchored, supported by stable food prices due to favourable weather, eased geopolitical tensions, minimal global supply chain disruptions, and expected macroeconomic stability.

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	6.6	6.1	6.5	6.5	6.1	5.9
Next 5 years	6.0	5.5	5.8	5.9	5.3	5.3

6. ECONOMIC ACTIVITY

6.1. Economic activity

The July 2022 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in May and June 2022, and their expectations for July and August 2022. Respondents expected economic activity to moderate in July and August due to possible slowdown arising from political uncertainty and a wait and see attitude, as businesses and investors anticipate the conclusion of the elections and formation of new Government **(Charts 1 & 2).**

Particularly, 71 percent bank respondents and 46 percent non-bank private sector respondents expected moderate to strong economic activity in July and August. Approximately 59 percent of total respondents expected economic activity to be largely supported by continued post Covid-19 recovery, especially in the services industry, which had been severely affected due to the pandemic. Respondents expect continued recovery as businesses aim to increase production to pre-Covid levels, after a return to normalcy and easing of Covid related restrictions.

Additionally, 27 percent respondents expected increased economic activity as businesses stock up to cover the electioneering period. Respondents expected possible panic buying in an attempt to stock up necessities before elections, followed by cautionary spending in August. In addition, respondents expect investors in the capital markets to buy and hold at the current low prices to cash in after the elections when prices return to normal, hence increased activity.

Nevertheless, risks to economic activity remained in July and August including the heightened political activity, deferred investments, hiring and spending decisions ahead of the elections, cited by 57 percent respondents, and high inflation levels that consequently results in low purchasing power among consumers, cited by 29 percent respondents.

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

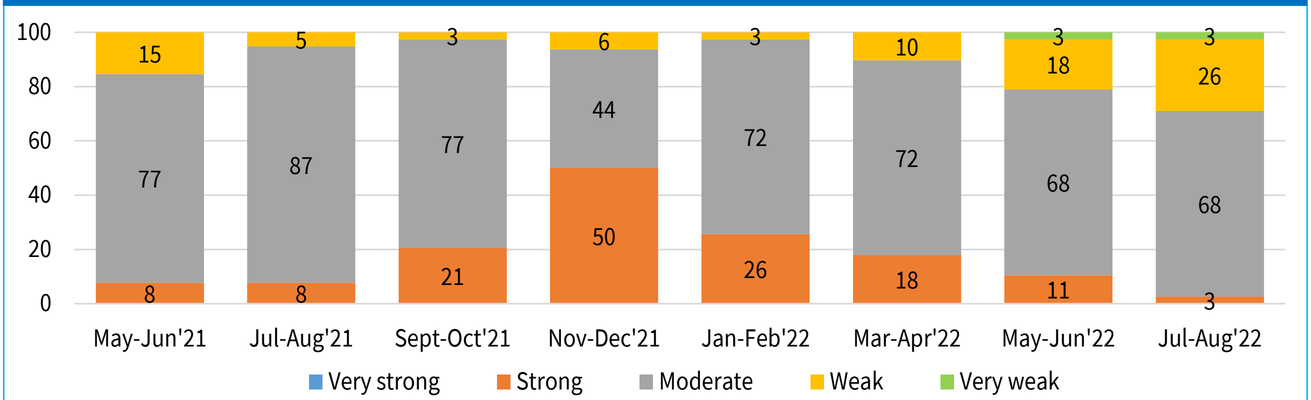
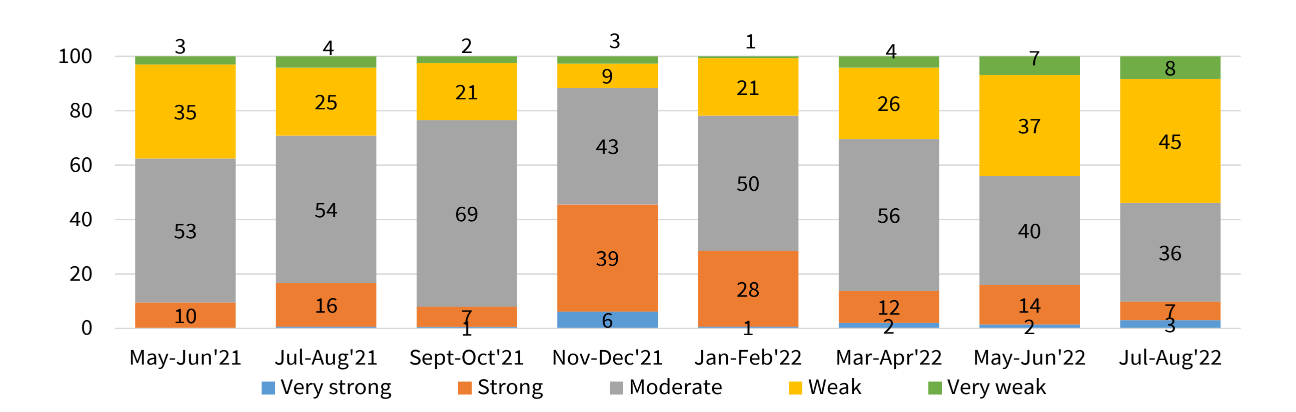


Chart 2: Expected economic activity by non-bank private sector (percent of respondents)



6.2. Firms' Operations levels

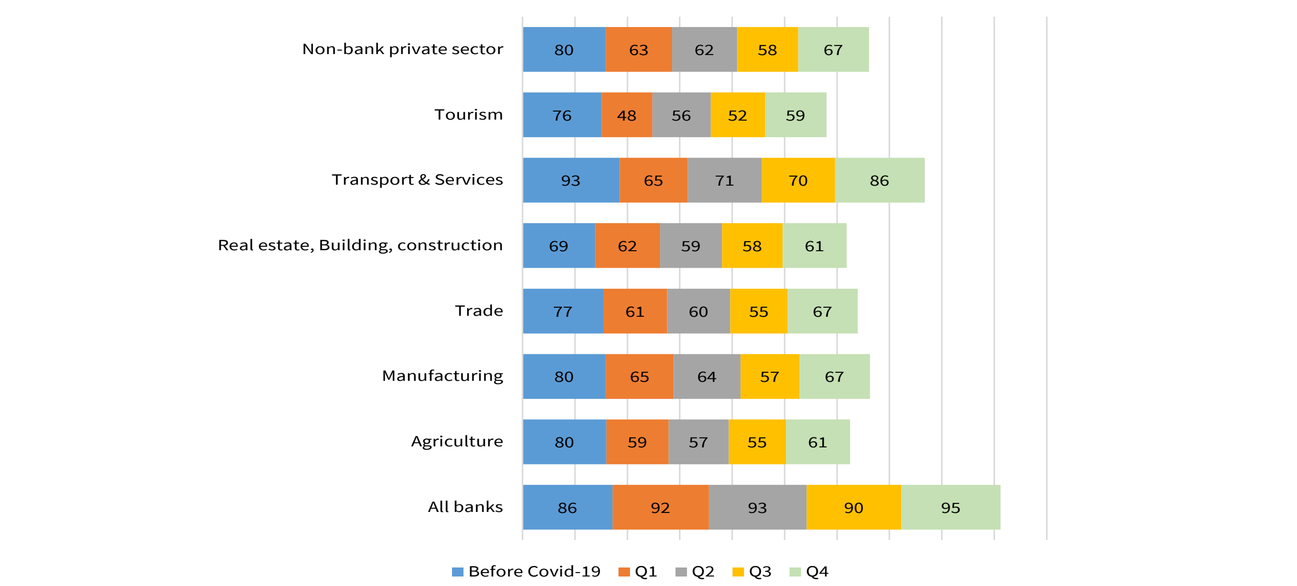
The Survey sought to find out from respondents the expected levels of operation (functioning, running and performance) for Q1, Q2, Q3 and Q4, 2022. Compared with the respective pre-COVID-19 operation levels given in the November 2021 survey, the results showed that while different sectors were at different levels of recovery, with some having achieved the pre-COVID levels, all respondents expected a temporary slowdown in operations in Q3 due to the upcoming elections, but recovery in Q4, 2022 **(Chart 3).**

Bank respondents expect operations to be largely normal through the remainder of the year with minimal disruptions from political noise and the Covid-19.

However, respondents expect a slowdown in uptake of credit and other services due to election slowdown, a possible wait and see attitude regarding investments and hires, tighter credit conditions and increased costs due to inflation.

Similarly, other non-bank firms expect lower economic activity and demand in Q3 due to elections, but look forward to a rebound in the economy in Q4 after the elections.

Chart 3: Current and Expected Operation levels (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit in 2022

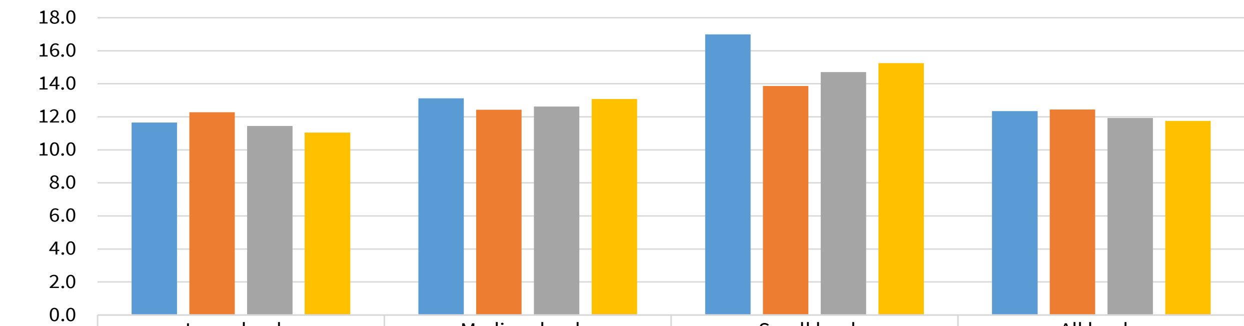
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2022 relative to 2021. Respondents expected an increase in private sector credit growth in 2022 relative to 2021 **(Chart 4).**

54 percent respondents expected private sector credit growth to be supported by improved business and economic activity following the COVID 19 slowdown, increased consumer spending in 2022 relative to 2021, increased trading activities and a general improvement of economic activity.

In addition, 41 percent respondents expected increase in demand for credit after resumption of economic activities post COVID 19, the need to meet business and personal needs due to the rise in inflation rate and price increases arising from global supply chain bottlenecks to increased private sector credit growth.

However, expected slowdown between July and September as companies put larger projects/ investments on hold due to the elections, and increased interest rates and higher inflation, arising from domestic and external factors, leading to increased input prices and cost of production, were cited by 50 percent and 43 percent respondents, respectively, as risks to expected credit growth.

Chart 4: 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
Jul-22	11.0	13.1	15.3	11.7

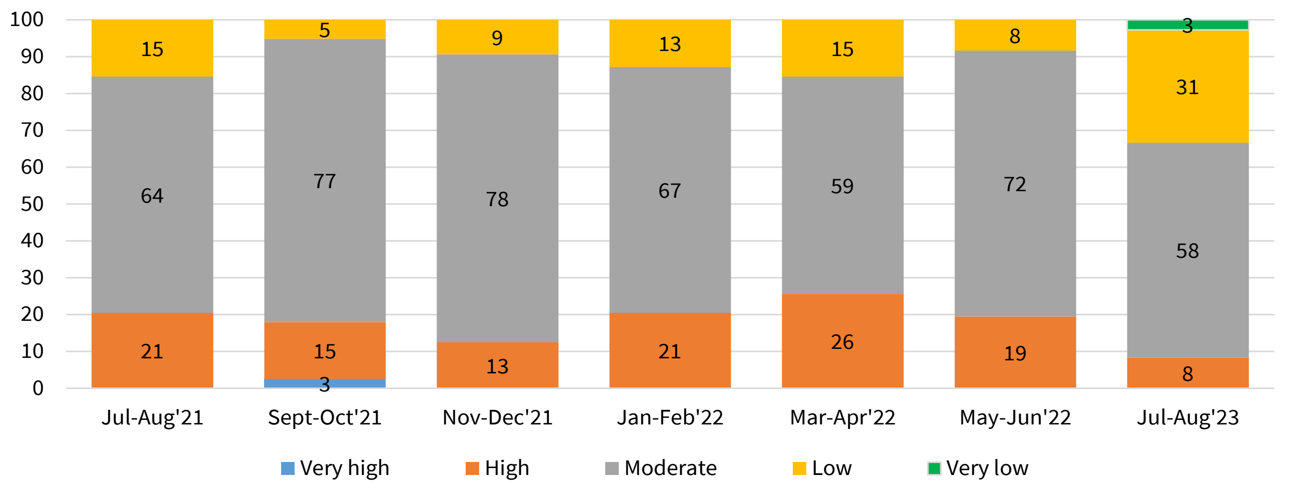
7.2. Expected demand for credit

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. May and June 2022), and their expectations for July and August 2022 **(Chart 5).**

Respondents expected credit demand to slow down in July and August on account of uncertainty due to upcoming elections and a possible wait and see attitude by clients, affecting investment decisions.

However, respondents expected demand for credit to be largely driven by improved businesses and increased economic activities in 2022 as the economy recovers from the COVID 19 pandemic.

Chart 5: Expectations on Demand for credit from banks' perspective (percent of respondents)



8. EXPECTED ECONOMIC GROWTH

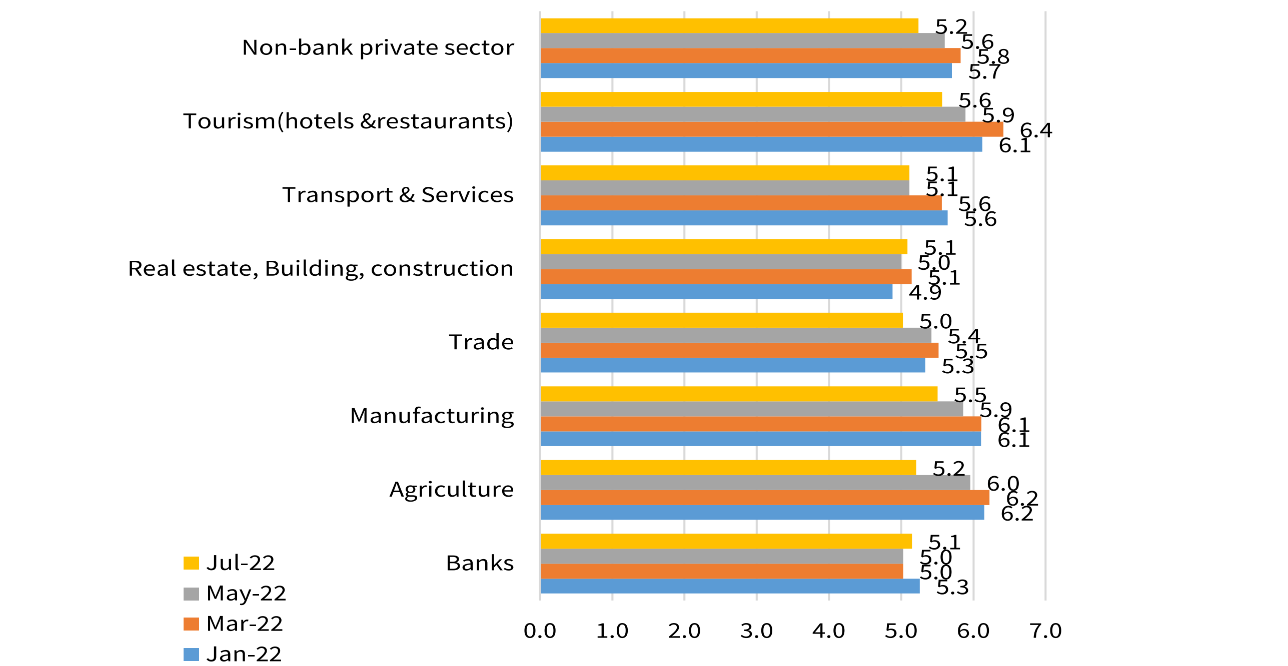
The Survey requested participants to indicate their estimated economic growth rates for the country in 2022, in the next 2 years (2023), and in the next 5 years (2026).

Respondents expected 2022 economic growth to be largely driven by post COVID-19 economic recovery, and continuing infrastructure spending **(Charts 6 & 7).**

42 percent of respondents expected a rebound in economic activity and production post COVID -19, large spending on outgoing infrastructure projects, completion of significant projects (Nairobi express way), and other ongoing Government and private sector development projects to support growth in 2022.

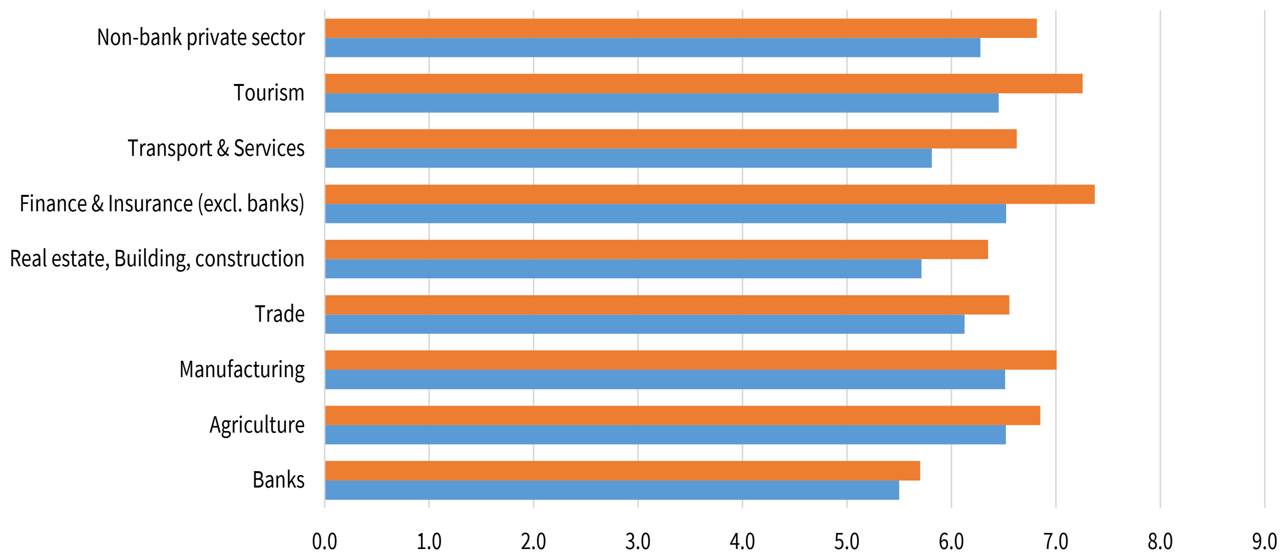
However, election year uncertainty is expected to dampen business and consumer confidence levels, and possibly lead to a wait and see attitude by investors and businesses, hence impacting on investments and trading. The impact of the war in Ukraine on supply chains, constraining external market access, and reduced agricultural production due to insufficient rainfall were cited by 58, 30 and 28 percent respondents, respectively, as potential risks to economic growth in 2022.

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



In the medium term, respondents expected economic growth to fully recover from the effects of Covid-19 and the war in Ukraine. Respondents indicated that the medium term outlook for economic growth was largely 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)



	Banks	Agriculture	Manufacturing	Trade	Real estate, Building, construction	Finance & Insurance (excl. banks)	Transport & Services	Tourism	Non-bank private sector
2026	5.7	6.9	7.0	6.6	6.4	7.4	6.6	7.3	6.8
2023	5.5	6.5	6.5	6.1	5.7	6.5	5.8	6.5	6.3

9. OPTIMISM ON THE ECONOMIC PROSPECTS

9.1. 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 8, 9 &10).**

44 percent respondents attributed their optimism to increased spending in key infrastructure projects; 42 percent respondents on expected peaceful conclusion of the 2022 elections, prioritization of economic recovery and growth, policies to spur economic growth, and a return to normalcy and resumption of economic activities, and 22 percent respondents on improved economic activity following the reduction in COVID-19 cases locally and globally on the back of increased vaccinations.

However, 60 percent respondents pointed out high inflation and the weak Shilling, while 35 percent indicated uncertainty surrounding the general election as the main risks to this optimism.

Chart 8: Optimism by Banks on Economic Prospects (percent of respondents)

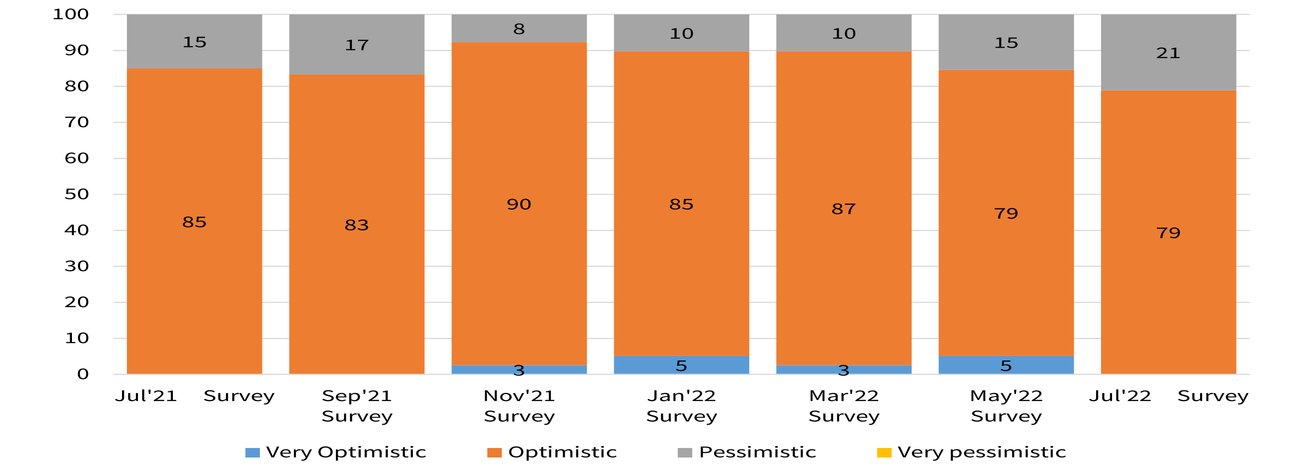
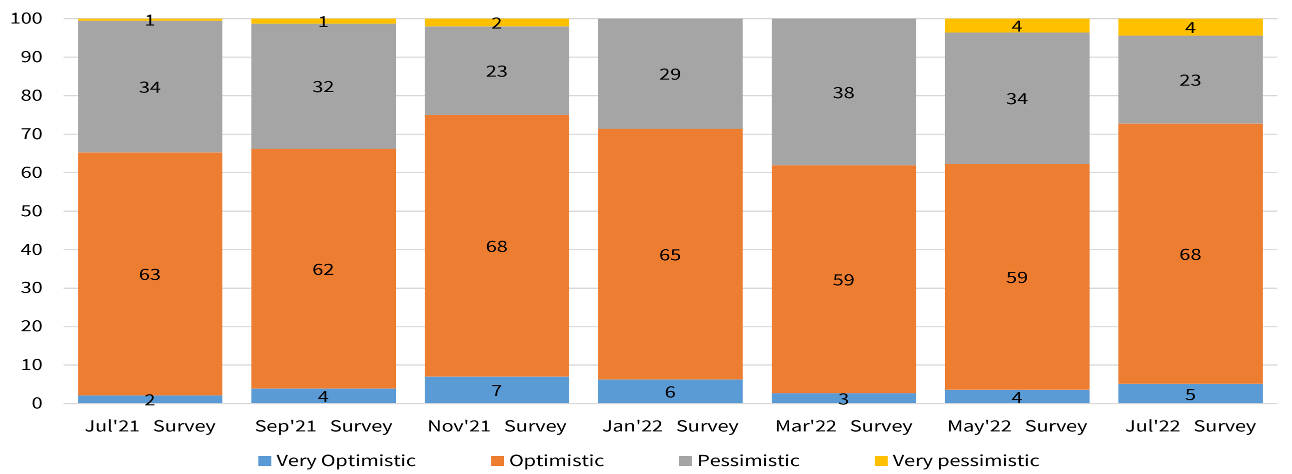


Chart 9: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)

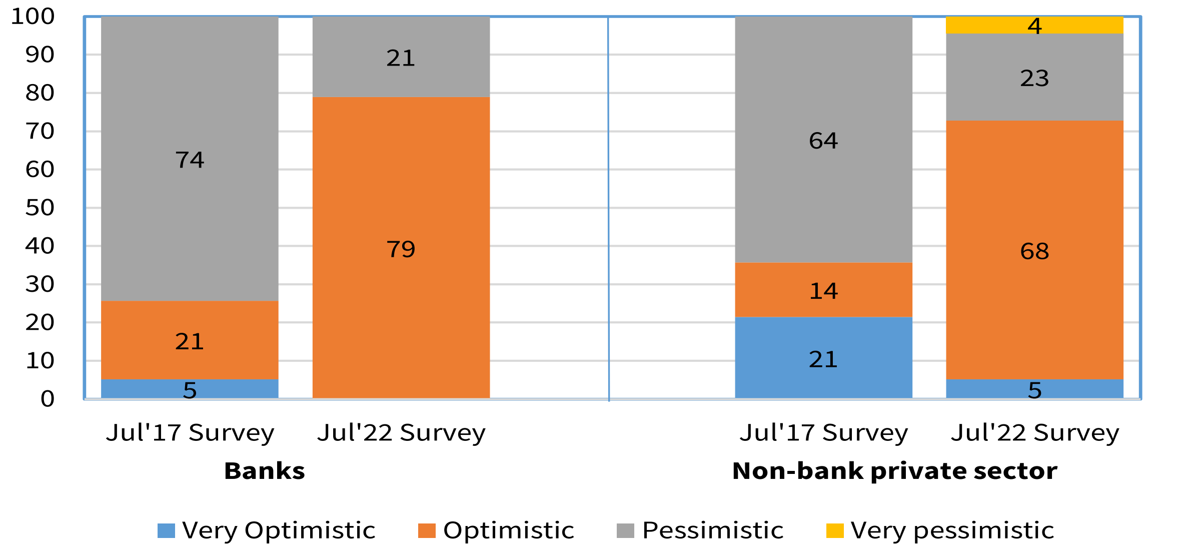


9.2. Optimism levels in 2022 versus 2017

A comparison between optimism levels on economic prospects for the next 12 months in the current survey, July 2022, and those obtained in the survey carried out in July 2017, just before the previous elections, revealed higher levels of optimism in 2022 **(Chart 10).**

In addition to the reasons respondents gave for their optimism above, respondents expressed more positive sentiments regarding the impact of elections on economic prospects including expectations of minimal business disruptions and strong recovery after the elections.

Chart 10: Optimism in levels of Economic Prospects in 2017 and 2022 (percent of respondents)



10. EXPECTED CHANGES IN EMPLOYMENT

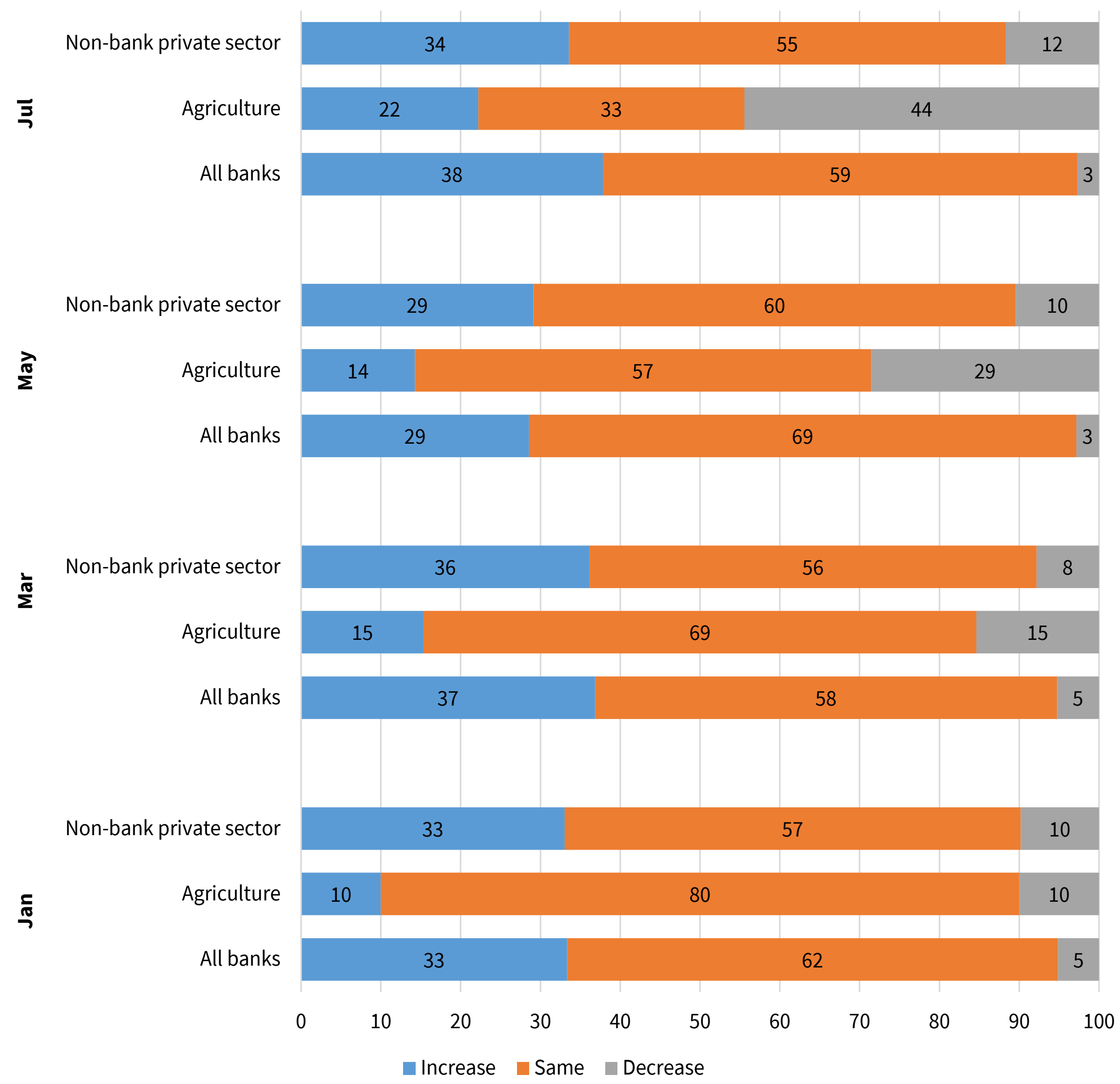
The Survey asked respondents to indicate their expectations regarding change in the number of employees in their respective institutions in 2022 relative to 2021.

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

New hires are expected to be supported by improving economy, increase in actual and projected business levels, and economic activities.

However, the agricultural sector respondents cited high production costs and reduced production due to the insufficient rainfall as reasons for the expected layoffs.

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 July and August 2022.

Respondents expect pressure on the Shilling from the stronger US Dollar, rising import demand, high energy prices, and rate hikes in developed markets that could also result in financial flows being biased toward developed markets, at the expense of developing countries.

However, respondents expected support for the Shilling to come from stable foreign exchange reserves and increased dollar inflows from the diaspora.

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 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 SMEs 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, 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.

Central Bank of Kenya

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