Central Bank of Kenya

Market Perceptions Survey

January 2024

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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 2024 MPC 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 three months (November 2023, December 2023, and January 2024), expectations for the next three months (February, March, and April 2024), the next one year (February 2024 – January 2025), the next two years (February 2024 – January 2026), and the next five years (February 2024 – January 2029).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 2024. 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 354 private sector firms comprising 38 commercial banks, 14 microfinance banks (MFBs) and 302 non-bank private firms, including 84 hotels, through questionnaires administered online, and via email and hard copies. The overall response rate to the January 2024 Survey was 67 percent of the sampled institutions. The respondents comprised 32 commercial banks, 9 micro-finance banks, and 198 other non-bank private sector firms.

The responses 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 2024 Market Perceptions Survey included:

1. Banks and Non-Banks expect overall inflation to remain sticky in the upper bound of the target range in the next three months.
2. Moderate to strong economic activity expected in February, March and April 2024.

3. Respondents expect higher economic growth in 2024 compared to 2023, mainly supported by increased activity in the agricultural sector. However, concerns on high cost of living and weaker Shilling remain.
4. Banks expect to hire more employees in 2024.
5. Banks expect stable growth of private sector credit in 2024.
6. Respondents remain optimistic about Kenya's economic prospects in the next 12 months.
7. Forward hotel bookings for the period January – April 2024 similar to those in January – April 2023.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next three months (January, February and March 2024), the next 12 months (February 2024 – January 2025), the next 2 years (February 2024 – January 2026), and the next 5 years (February 2024 – January 2029). Banks expect overall inflation to fall marginally while non-banks expect it to remain sticky in the upper bound of the target range in the next three months **(Table 1).**

In the near term, 70 percent of the respondents expected upward pressure on inflation to come from the weak local currency leading to increased cost of imports. In addition, 50 percent of the respondents, expected elevated inflation to emanate from increased electricity prices which is likely to offset the slight reduction in domestic fuel prices.

Nevertheless, 76 percent and 41 percent respondents respectively, expected moderated food prices because of favourable rainfall and increased supply, and reduction in production and transportation costs due to decline in domestic fuel prices.

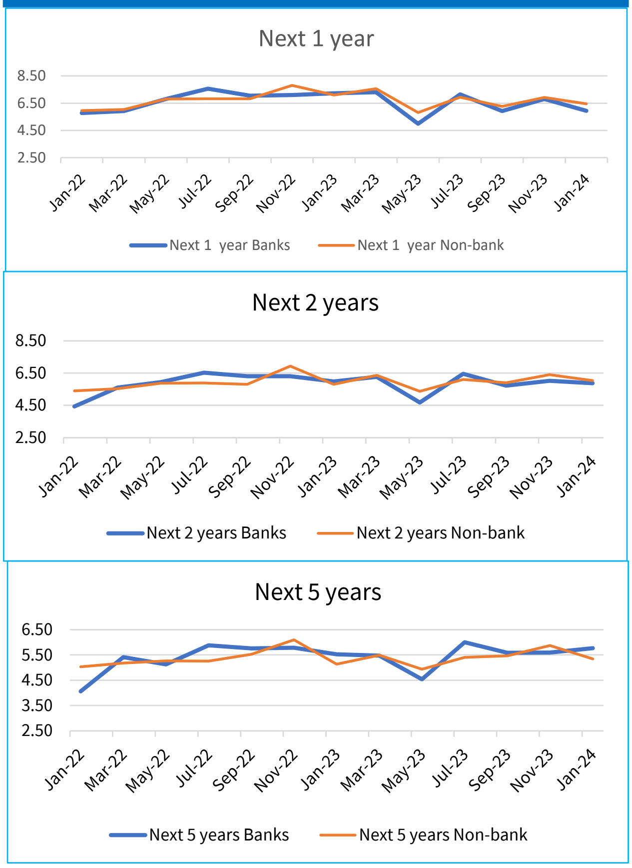
Table 1: Inflation expectations for January to March 2024 (percent)

Survey month	Inflation expectations			Actual inflation	Deviations	
		Banks	Non-banks		Banks	Nonbanks
Jan-22	Jan-22	5.65	5.76	5.39	0.27	0.37
	Feb-22	5.63	5.81	5.08	0.54	0.73
Mar-22	Mar-22	5.39	5.75	5.56	-0.17	0.20
	Apr-22	5.52	5.97	6.47	-0.95	-0.50
May-22	May-22	6.93	7.04	7.08	-0.15	-0.04
	Jun-22	7.22	7.27	7.91	-0.69	-0.64
Jul-22	Jul-22	8.07	7.38	8.32	-0.24	-0.93
	Aug-22	8.20	7.62	8.53	-0.32	-0.91
Sep-22	Sep-22	8.52	8.28	9.18	-0.66	-0.89
	Oct-22	8.50	8.18	9.59	-1.09	-1.41
Nov-22	Nov-22	9.73	9.64	9.48	0.25	0.16
	Dec-22	9.76	9.54	9.06	0.70	0.47
Jan-23	Jan-23	9.03	8.88	8.98	0.05	-0.10
	Feb-23	8.87	8.79	9.23	-0.36	-0.44
Mar-23	Mar-23	9.23	8.87	9.19	0.04	-0.32
	Apr-23	9.12	8.91	7.90	1.21	1.01
May-23	May-23	7.98	7.39	8.03	-0.05	-0.64
	Jun-23	7.81	7.40	7.88	-0.07	-0.49
Jul-23	Jul-23	8.01	7.83	7.28	0.73	0.55
	Aug-23	8.07	7.83	6.73	1.35	1.11
Sep-23	Sep-23	6.45	6.54	6.78	-0.34	-0.24
	Oct-23	6.27	6.52	6.92	-0.65	-0.40
Nov-23	Nov-23	6.97	7.02	6.80	0.17	0.22
	Dec-23	7.16	7.12	6.60	0.56	0.52
Jan-24	**Jan-24**	**6.67**	**6.83**	**6.85**	**-0.18**	**-0.02**
	Feb-24	**6.63**	**6.77**			
	Mar-24	**6.43**	**6.78**			

Over the medium term, 81 percent of the respondents expect inflation to remain anchored around the 5 percent target supported by lower food inflation arising from increased agricultural production while 38 percent of the respondents expected reduction of fuel, transport, and production costs due to moderation in energy prices both locally and abroad.

However, 89 percent and 44 percent respondents, respectively expected upward pressure on inflation over the medium term to arise from imported inflation due to the weak local currency, and high interest rates following CBK contractionary monetary policy **(Chart 1).**

Chart 1: Inflation expectations for the medium term (percent)



6. ECONOMIC ACTIVITY

The January 2024 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in November 2023, December 2023 and January 2024, and their expectations for February, March and April 2024. Respondents largely expected moderate to strong economic activity in the next three months **(Charts 2 & 3).**

About 73 percent of the respondents expected economic activity to be supported by lower food inflation on account of improved weather, and increased activity in the agricultural and tourism sectors.

In addition, 36 percent respondents indicated that expansion of credit to the private sector and the slight reduction in fuel prices was likely to provide some relief to consumers and producers and hence impact economic activity positively in the next three months.

Nevertheless, 75 percent of the respondents indicated that the high cost of living was likely to reduce capacity for local investments as well as constrain disposable income and consumer demand. At the same time, 45 percent of the respondents pointed out that the weaker shilling effects being passed by importers to consumers was resulting in reduced supply of key commodities, hence dampening economic activity.

Additionally, 40 percent of the respondents expected the high interest rates environment and fiscal tightening to impact private investment while 25 percent of the respondents expected high taxation to affect businesses struggling to stay afloat due to increased costs.

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

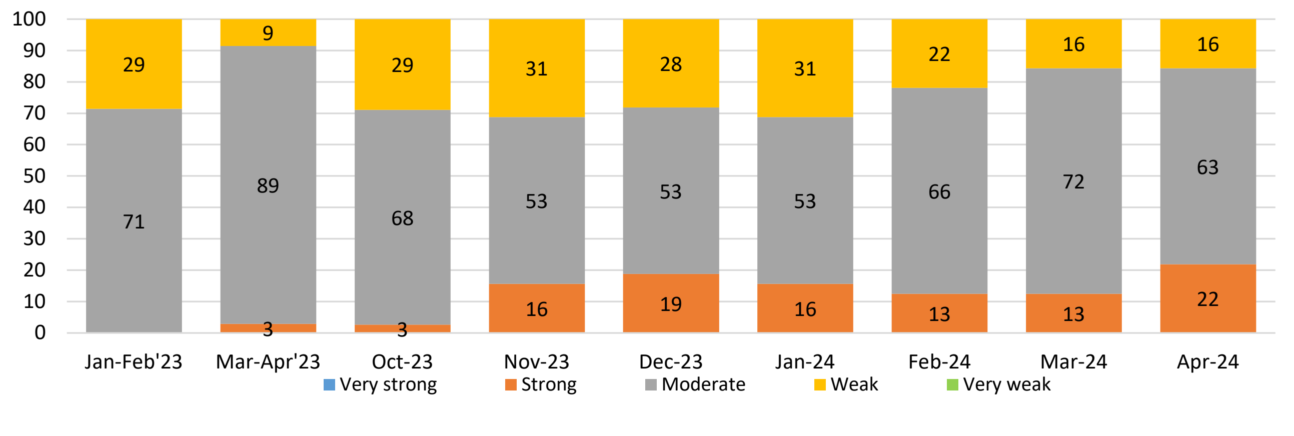
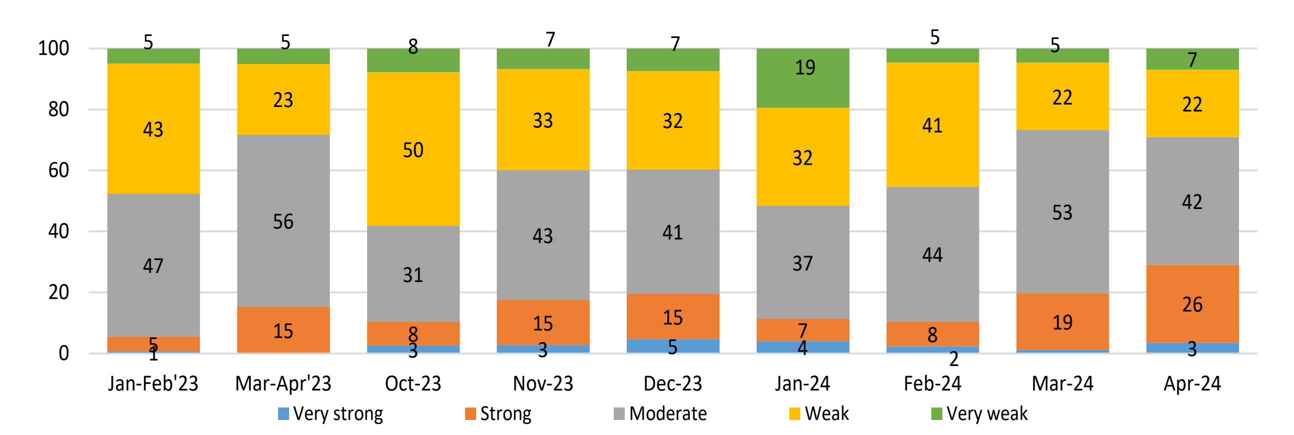


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

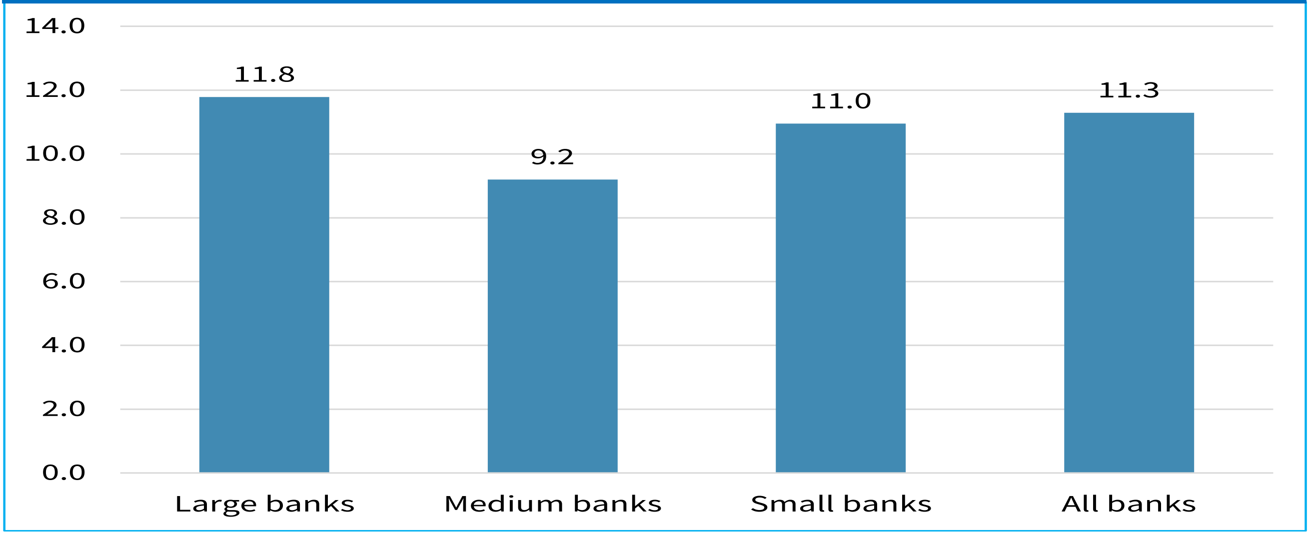
7.1. Growth in private sector credit at end December 2024

The Survey sought to find out from commercial banks by what percentage they expected to grow credit to the private sector by end December 2024 compared with end December 2023. Respondents expected stable growth in private sector credit in 2024 **(Chart 4).**

About 71 percent respondents expected private sector credit growth to be supported by increase in demand for credit, particularly short - term facilities due to increased requirements for working capital, high operational costs, increase in commodity and raw material prices, depreciation of local currency and for businesses to stay afloat.

Nevertheless, 79 percent of the respondents expected economic uncertainty occasioned by the high cost of living to drive banks to become more cautious in lending to the private sector to minimize the risk of default, the high cost of doing business due to expensive foreign currency, low business activities due to multiple taxes, as well as the high interest rates, to dampen private sector credit growth in 2024.

Chart 4: Expectations on private sector credit growth 2024 (percent)



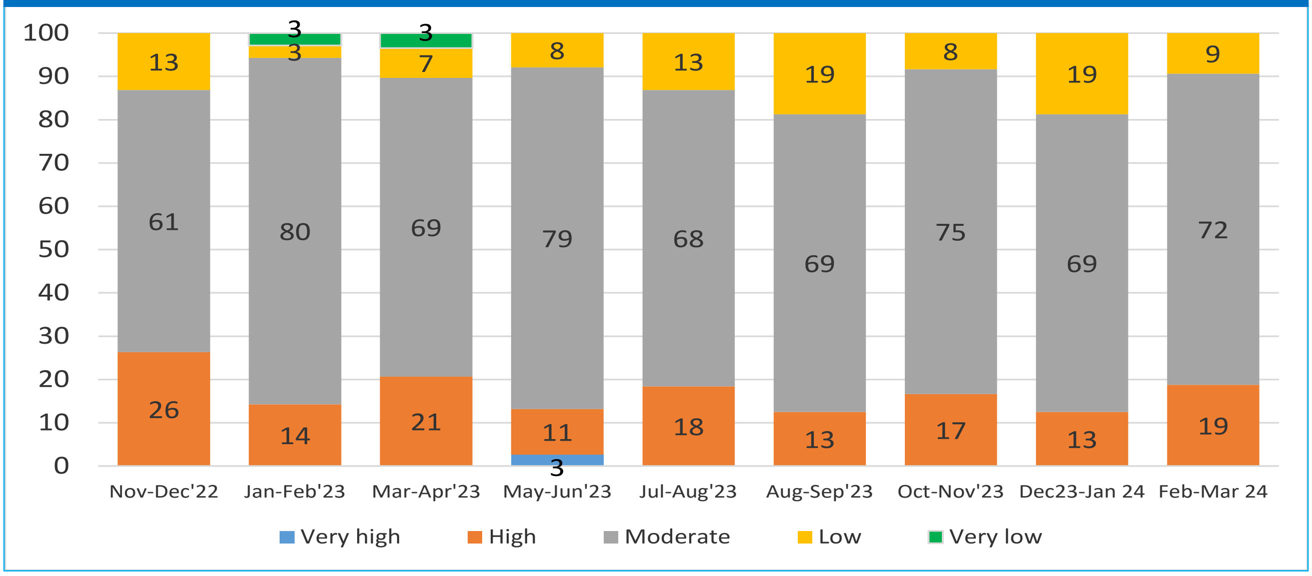
7.2. Expected demand for credit by banks

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the two months before the MPC meeting (i.e., December 2023 and January 2024), and their expectations for February and March 2024 **(Chart 5).**

Bank respondents expected moderate to high demand for credit in February and March 2024 driven by working capital requirements by most businesses, cited by 67 percent respondents, and back to school financing at the beginning of the school year, cited by 33 percent respondents.

However, 91 percent respondents indicated that the prevailing economic conditions including depreciation of the local currency, increase in interest rates, commodity and raw material prices, distribution, logistics and fuel costs and high inflation, could impact negatively on credit appetite and trade activities, and cause importers to adopt a wait and see attitude, and businesses and consumers to be more cautious, hence slow demand for credit.

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 2023, in 2024 and in the next five years (2028). Respondents expected relatively strong economic growth in 2023 and 2024 largely supported by agriculture and a resilient services sector **(Chart 6).**

About 73 percent respondents expected support to economic growth to come from a resilient services sector boosted by a diversified private sector and recovery in the tourism sector to pre-covid levels. In addition, 60 percent respondents expected support to come from enhanced agricultural production, following favourable weather conditions, which is expected to impact GDP directly, and indirectly through its impact on lowering inflation.

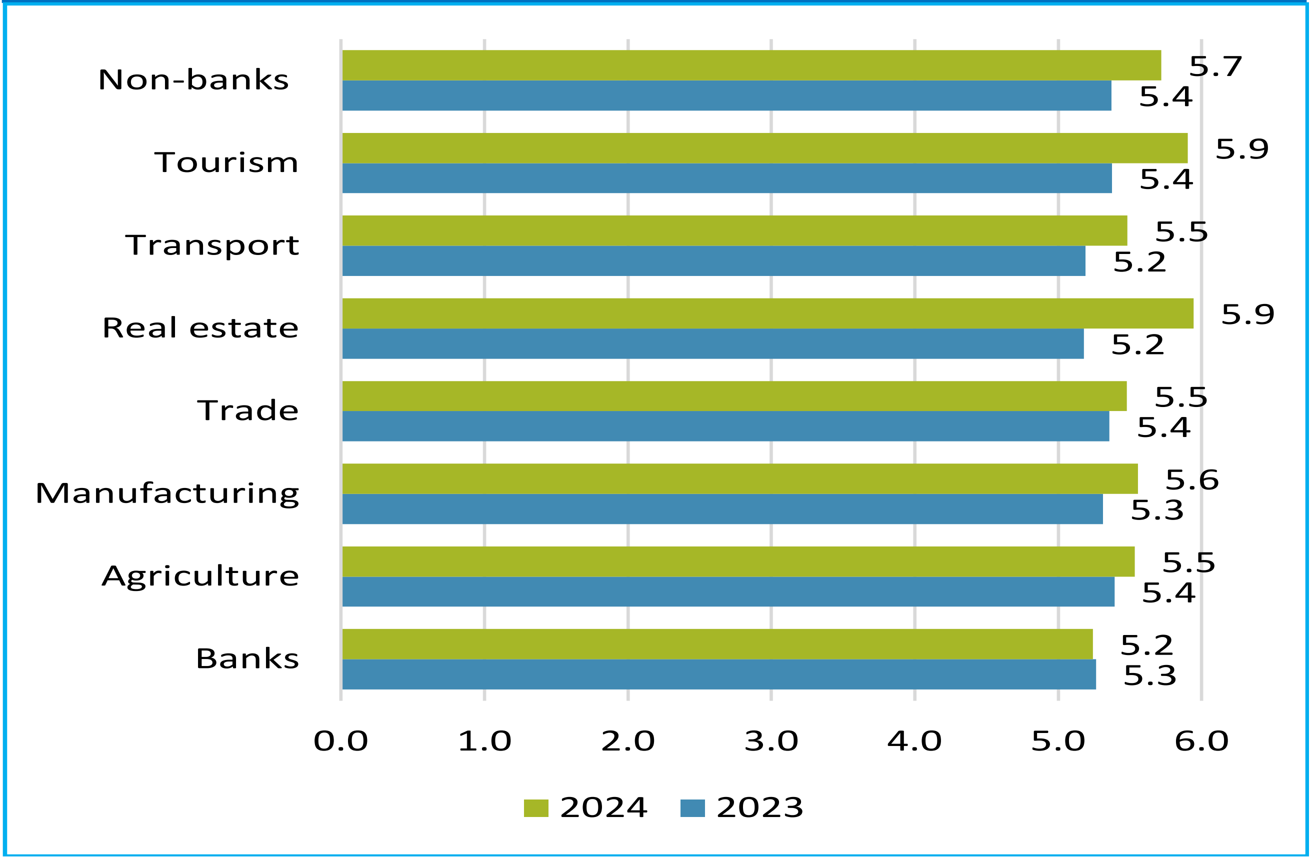
Furthermore, 20 percent respondents expected government's agenda and stimulus investments in agriculture, MSMEs, health, housing and settlement, digital economy and creative sector to spur economic activity and hence economic growth.

However, 80 percent respondents indicated that pressure on foreign reserves from public debt repayments and imports, constraints on government spending from low fiscal space and high debt to GDP ratio, amidst pressure on the local currency would have a negative impact on economic growth in 2023 and 2024.

In addition, 55 percent of the respondents expected high inflation to lead to tighter monetary policy and higher interest rates, thereby dampening economic growth outcomes in 2023 and 2024.

Lastly, 40 percent respondents cited increased taxation as a risk to economic growth in 2023 and 2024 with the costs of higher taxes on manufacturers being passed on to consumers, and the concentration of tax burden on a small tax base leading to contraction of household consumption demand, private sector investment and employment while adversely affecting incentives to work and invest more, amidst sustained high interest rates.

Chart 6: Expected economic growth in 2023 and 2024 by sector (%)



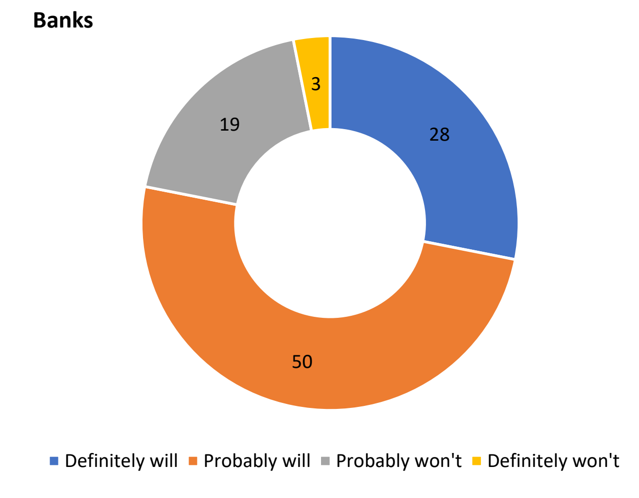
9. EMPLOYMENT EXPECTATIONS

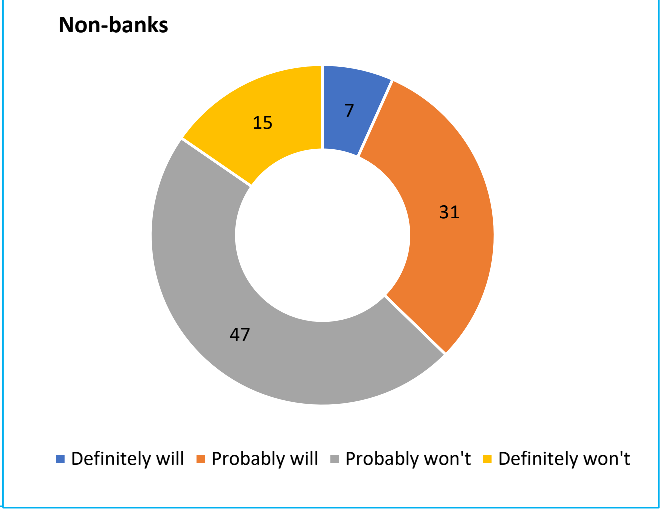
Respondents were asked about their expectations on the number of employees they expect to retain in 2024 compared with 2023. The results showed mixed expectations between bank and non-bank respondents **(Chart 7).**

Banks expect to hire in 2024 as they expand services and strengthen capacity to support business growth.

Non-bank respondents, on the other hand expressed mixed expectations on hiring, citing challenges in the economy including the high cost of living, reduction in customers, weak Shilling, low activity, an unfavorable business environment, decline in business due to high taxation and high fuel prices, reduced output, poor cash flow, increased cost of doing business and increased cost of production.

Chart 7: Employment expectations for 2024 compared with 2023 (percent)





10. OPTIMISM ON THE ECONOMIC PROSPECTS

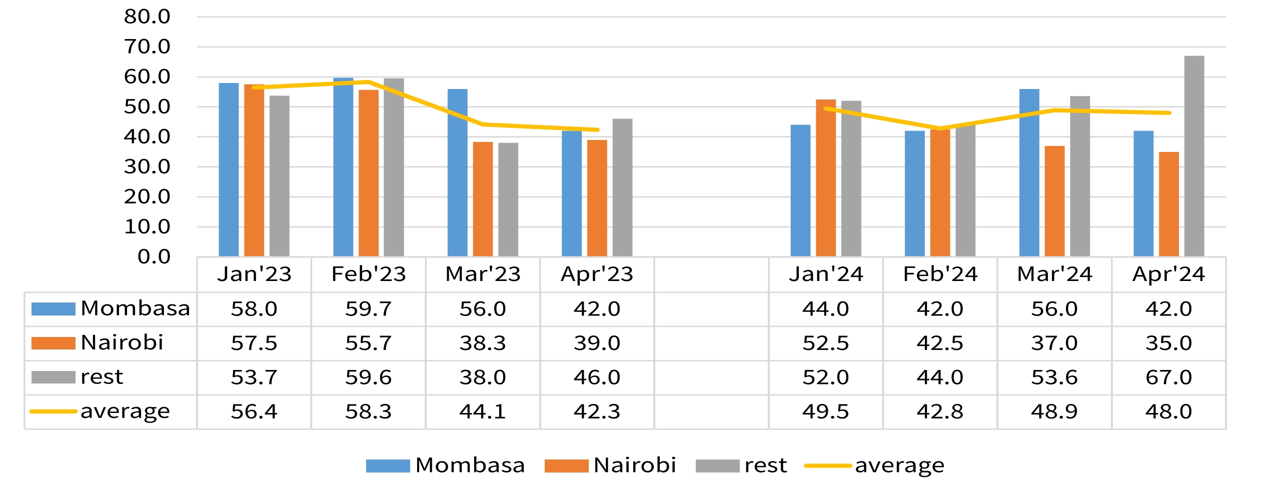
10.1. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for the period January to April 2024. The results showed slightly lower average forward bookings for January and February 2024 compared with 2023, but higher averages for March and April 2024 **(Chart 8).**

Respondents indicated that forward bookings were supported by increased international travel. local forward bookings were low following Government's reduced expenditure on conferences.

However, respondents expected bookings to increase around the easter holiday season.

Chart 8: Hotel forward bookings (January – April 2024)



	Jan'23	Feb'23	Mar'23	Apr'23		Jan'24	Feb'24	Mar'24	Apr'24
Mombasa	58.0	59.7	56.0	42.0		44.0	42.0	56.0	42.0
Nairobi	57.5	55.7	38.3	39.0		52.5	42.5	37.0	35.0
rest	53.7	59.6	38.0	46.0		52.0	44.0	53.6	67.0
average	56.4	58.3	44.1	42.3		49.5	42.8	48.9	48.0

10.2. 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. Overall, respondents remained optimistic about Kenya's economic prospects in the next 12 months, with non-bank firms expressing more optimism about Kenya's economic prospects compared to the last survey **(Charts 9 & 10).**

About 83 percent of the respondents cited improved agricultural production following the favourable rainfall, moderating commodity prices globally and reduced international fuel prices as reasons for this optimism while 39 percent were optimistic about the resilient services sector driving growth in the economy.

Nevertheless, 50 percent respondents cited the following as risks to this outlook: weak local currency, increased imported inflation, which is being passed on to consumers, the high cost of borrowing resulting from high interest rates and increasing loan repayment costs further constraining disposable incomes for consumption and investments by households and MSMEs, and non-performing loans as economic actors struggle to repay existing facilities.

Chart 9: Optimism in growth prospects by banks (% respondents)

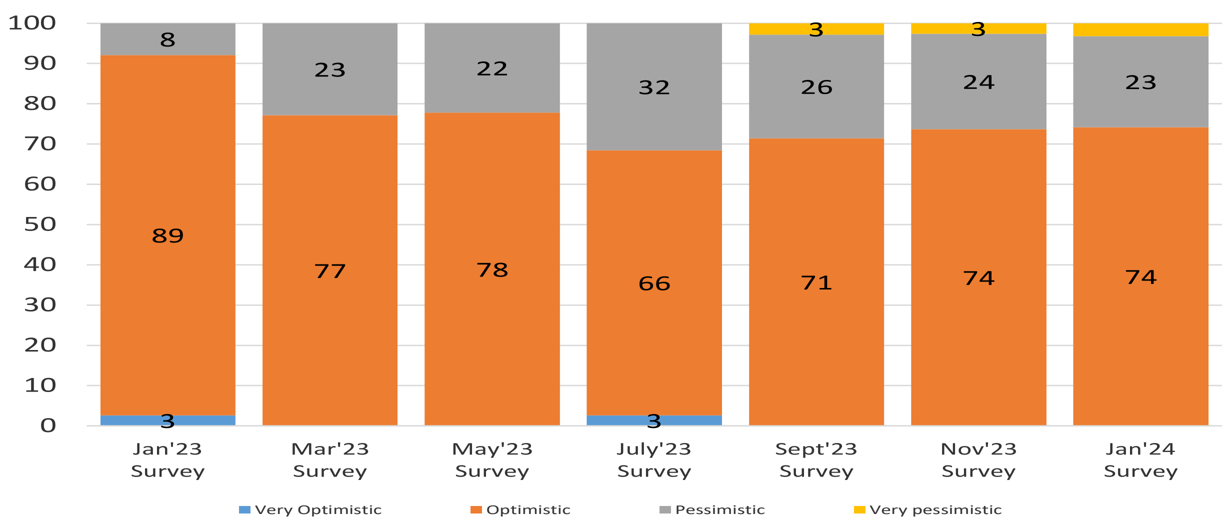
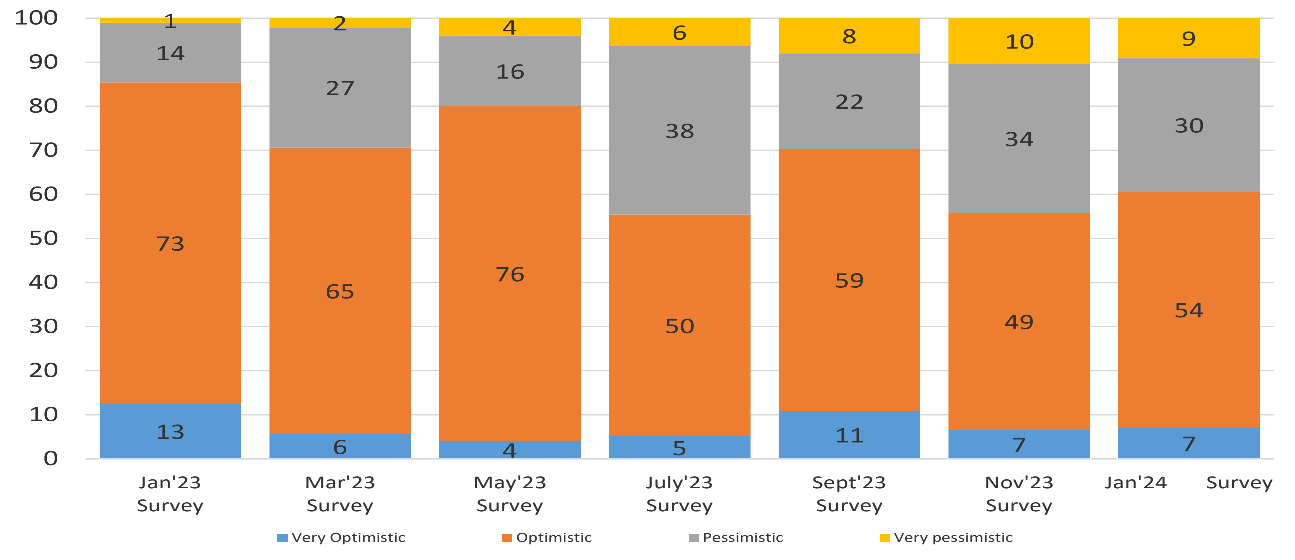


Chart 10: Optimism in growth prospects by non-bank private sector (% respondents)



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 February and March 2024.

Respondents expect support for the shilling to come from favorable remittances, recovering agriculture production, especially exports, and a recovering tourism sector.

However, respondents expected some pressure on the shilling on account of demand for dollars to support debt service, higher for longer global interest rates, low foreign direct inflows, high import bills, deferred investment decisions, weakened sentiments towards the Shilling and sovereign credit rating.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Respondents suggested that a healthy mix of fiscal policies to subsidize both consumption expenditure as well as business investments would improve the economy. In addition, respondents suggested that the business environment could improve if the Government kept expenditure levels stable, and if expected inflows from development partners came through, which would bolster the economy's ability to service its debts whilst maintaining a healthy liquidity level to enable enhanced business activity.

Respondents also indicated that approval of risk-based pricing should enable businesses to price risk accordingly and expand extension of credit to more businesses and individuals.

Additionally, respondents suggested that prioritization of pending bills would improve liquidity in businesses and ensure their survival.

Finally, respondents suggested that a shift in government spending towards development expenditure would have a greater multiplier effect in the overall economy.

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