Central Bank of Kenya

Market Perceptions Survey

May 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 May 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 (March and April 2023), and expectations for the next two months (May and June 2023), the next one year (May 2023 – April 2024), the next two years (May 2023 – April 2025), and the next five years (May 2023 – April 2028).

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 322 private sector firms comprising 38 commercial banks, 1 mortgage finance institution, 14 microfinance banks (MFBs) and 269 non-bank private firms, including 64 hotels, through questionnaires sent in hard copy and by email. The overall response rate to the May 2023 Survey was 60 percent of the sampled institutions. The respondents comprised 36 commercial banks, 12 micro-finance banks, and 145 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 May 2023 Market Perceptions Survey included:

1. Overall Inflation is expected to decline in the next 2 months due to lower food prices following improved weather conditions.
2. Moderate to strong economic activity is expected in May and June compared to March and April.

3. Economic growth is expected to be resilient in 2023, with expectations of improved agricultural production.
4. Mixed expectations by banks and non-banks on new hires (employment) in 2023 compared with 2022.
5. Banks expect continued growth in private sector credit in 2023, mainly supported by MSMEs lending and demand for working capital requirements.
6. Improved optimism in the country's economic prospects in the next 12 months relative to the March survey.
7. Forward hotel bookings are stronger than they were in the same period in 2022.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months (May and June 2023), the next 12 months (May 2023 – April 2024), the next two years (May 2023 – April 2025), and the next five years (May 2023 – April 2028). **(Table 1, 2 & 3).** The respondents expected inflation to decline in the next 2 months and to moderate in the next 12 months.

In total, 53 percent of the respondents expected inflation to decline due to lower food prices supported by improved supply following improved weather conditions. Some of the respondents expected improved food supply from imports, while others expected the Government-to-Government oil imports arrangement to ease pressure on the currency therefore moderating import prices.

Nevertheless, 48 percent of the respondents cited higher fuel prices following the recent removal of fuel subsidy, and the recent upward revision of electricity prices as the main risks to inflation, while 20 percent of the respondents cited the impact of increased taxation. Some respondents were concerned about the rise in sugar prices which would increase food prices.

Table 1: Inflation expectations for May and June 2023 (percent)

Survey month	Expected Inflation for:	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
March '22	Mar-Apr 2022	5.4	5.7	5.7	5.5	5.5	5.9
May '22	May-Jun 2022	7.1	6.9	6.8	7.1	6.7	7.2
July '22	Jul-Aug 2022	8.2	8.1	7.9	8.1	7.9	7.5
September '22	Sep-Oct 2022	8.6	8.7	8.7	8.7	8.5	8.2
November '22	Nov-Dec 2022	9.8	9.7	8.7	9.7	9.6	9.4
January '23	Jan-Feb 2023	8.9	9.1	9.0	9.0	9.0	8.8
March '23	Mar-Apr 2023	9.1	9.4	9.2	9.2	9.2	8.9
April 2023 Actual inflation		7.9	7.9	7.9	7.9	7.9	7.9
May '23	May-June 2023	7.7	7.9	7.9	7.8	7.9	7.6

Table 2: Inflation expectations for the next 12 months (percent)

Survey month	Large banks	Medium banks	Small banks	All banks (weighted by size of bank)	MFBs	Non-bank private firms
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
Mar'23 Survey	7.2	7.5	7.6	7.3	7.7	7.6
May '23 Survey	7.5	7.6	7.6	7.5	5.0	7.3

In the medium term, respondents expect inflation to remain within the target levels supported by eased geopolitical tensions, improved supply chains, good weather and impact of monetary policy measures.

Table 3: 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	7.0	6.9	6.7	4.7	6.3
Next 5 years	6.7	6.5	6.4	6.6	4.6	5.5

6. ECONOMIC ACTIVITY

The May 2023 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in March and April 2023, and their expectations for May and June 2023. Respondents expected moderate to strong economic activity in May and June 2023 **(Chart 1 & 2).**

15 percent of the respondents expected economic activity to be supported by improved weather conditions supporting agricultural activities/ production and the implementation of Government measures towards supporting MSMEs and macroeconomic stability particularly measures to stabilise the foreign exchange market. In addition, respondents expected improved Government spending to spur economic activities, particularly in the counties.

However, 33 percent of the respondents cited high cost of production arising from increased cost of electricity, high inflation, and input costs. Additionally, 8 percent of the respondents cited high borrowing costs resulting from increased interest rates as risks to economic activity in May and June 2023.

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

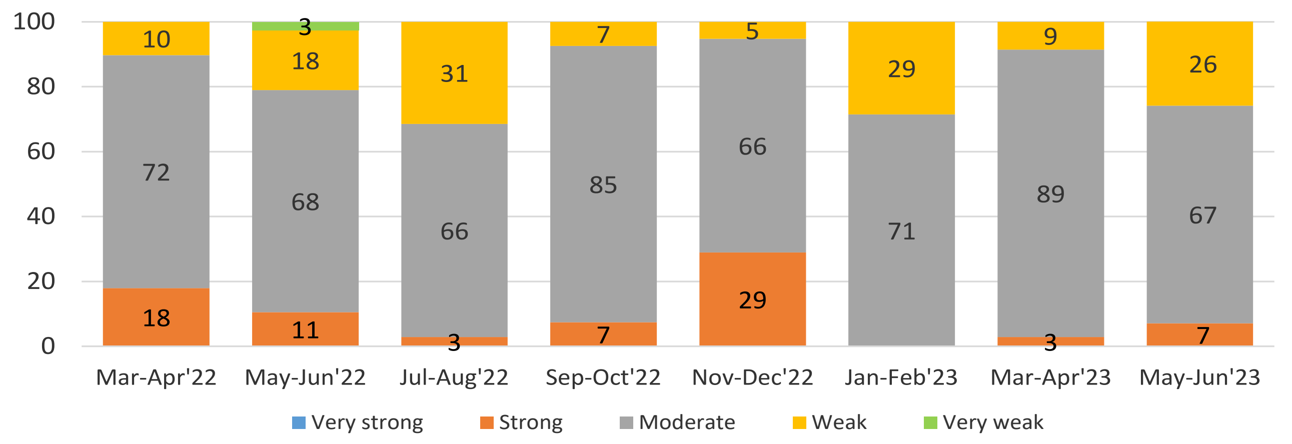
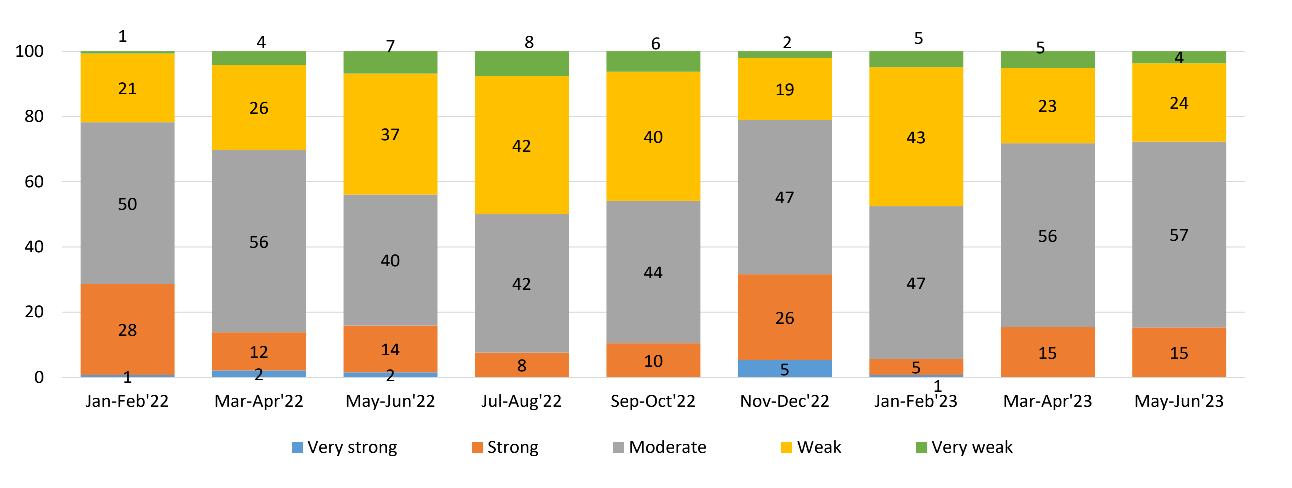


Chart 2: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

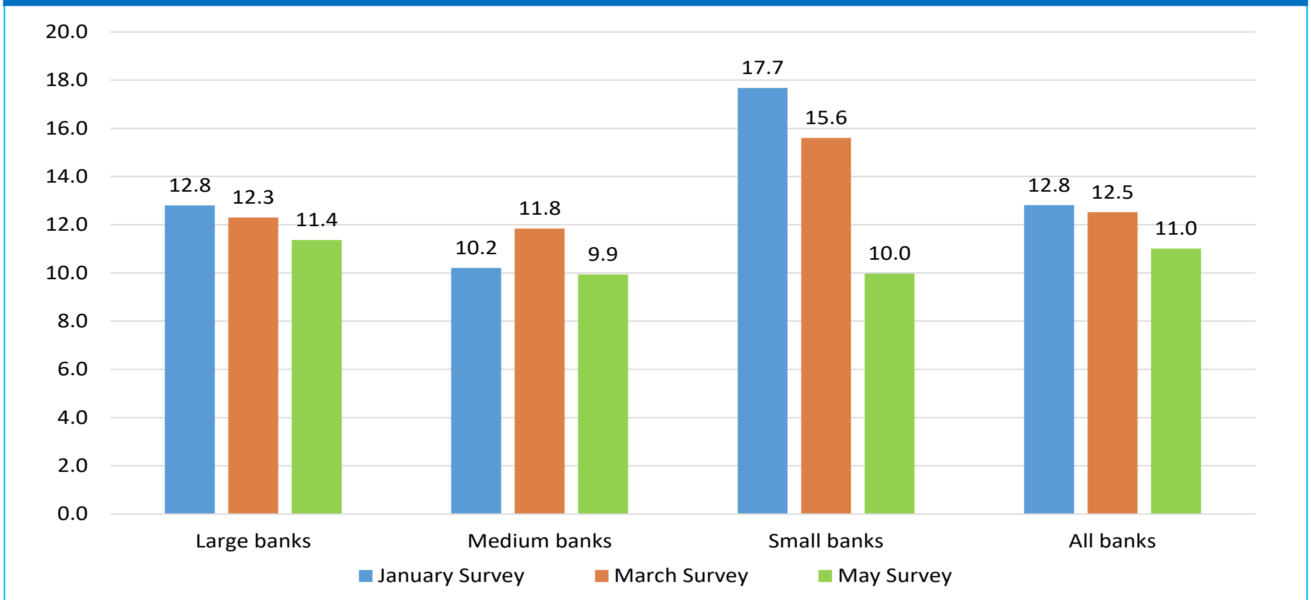
7.1. Growth in private sector credit in 2023

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

About 20 percent of the respondents expected private sector credit growth to be supported by increased focus by banks on MSMEs segment and some specific sectors within the corporate business. Additionally, respondents cited high demand for credit due to increase in working capital requirements as well as marketing initiatives by banks.

However, risks to private sector credit growth included higher lending rates, which was expected to dampen demand, and increased pending bills at both National and County Governments, which were affecting cashflows.

Chart 3: Expectations on private sector credit growth in 2023 (percent)



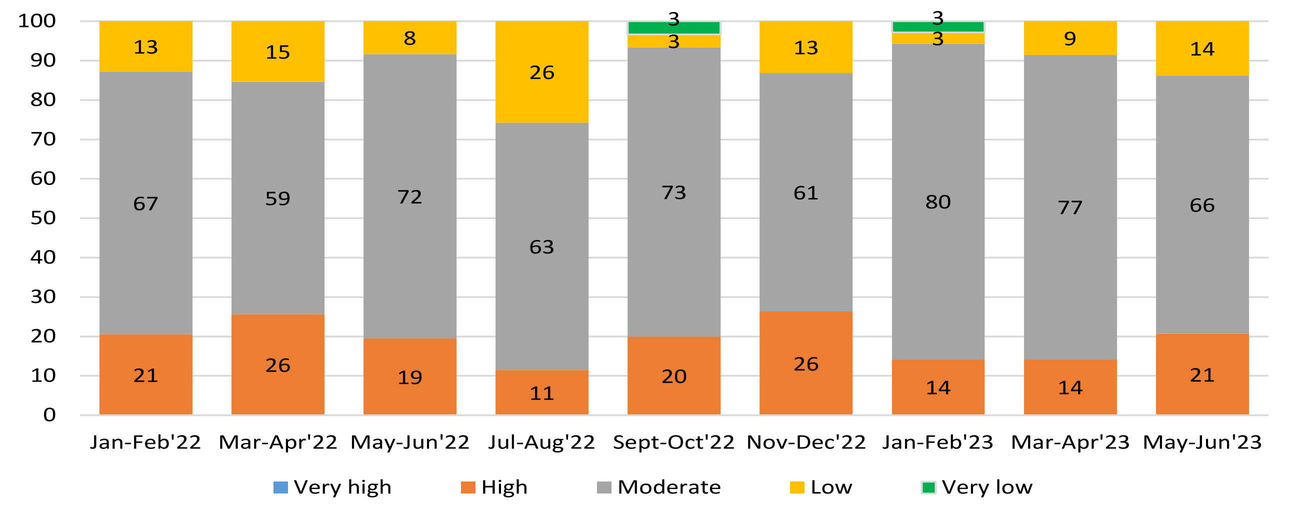
7.2. Expected demand for credit by banks

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. March and April 2023), and their expectations for May and June 2023 **(Chart 4).**

Banks respondents expected demand for credit to remain high to moderate due to demand from MSMEs, increased agricultural activity with improved weather conditions and increased demand from increased economic activity.

However, some of the bank respondents expected demand for credit to be dampened by effects of high interest rates and inflation which could dampen activity and reduce demand.

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



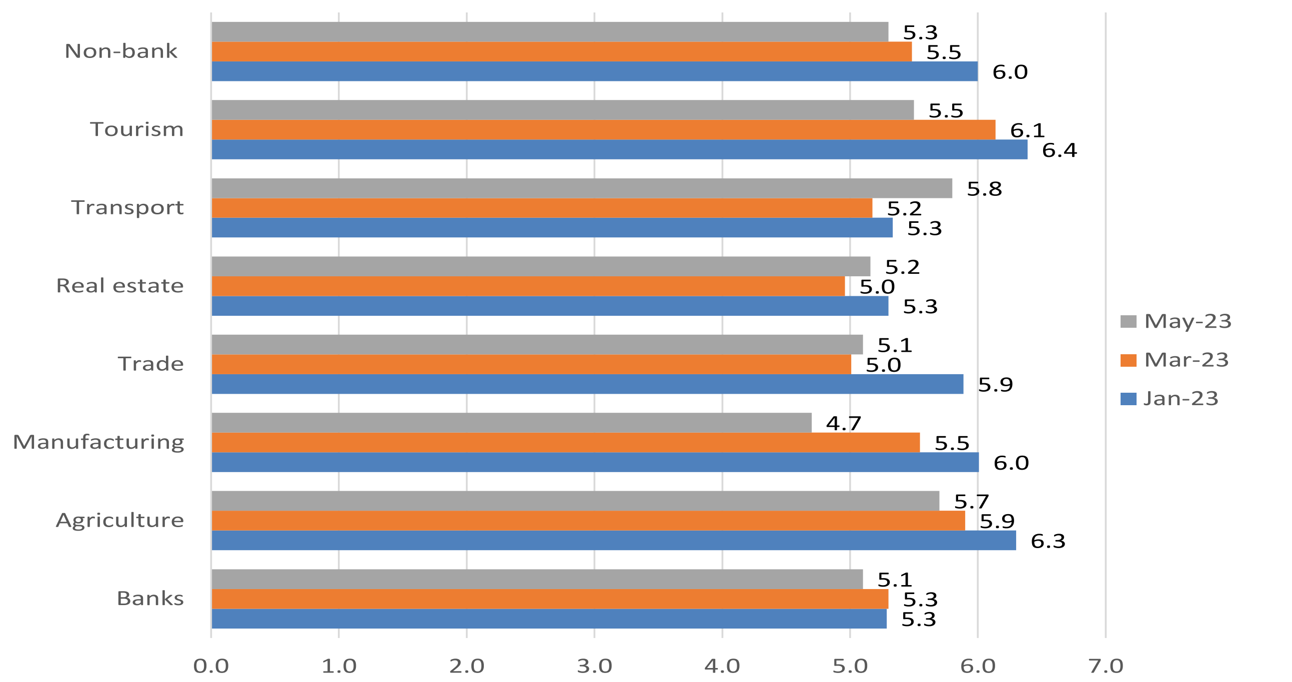
8. EXPECTED ECONOMIC GROWTH

The Survey requested participants to indicate their projected economic growth rates for the country in 2023.

Respondents expected economic growth to remain resilient in 2023, supported by favourable weather patterns, leading to recovery of the agricultural sector, implementation of fiscal measures towards supporting agriculture and manufacturing, and a resilient and diversified private sector **(Charts 5).**

However, risks to growth expectations in 2023 included high taxes on goods, and inflation which are expected to slow down consumption, and weaker local currency resulting in expensive imports, further affecting input costs for most of the products.

Chart 5: Expectations on economic growth for 2023 (percent)



9. OPTIMISM ON THE ECONOMIC PROSPECTS

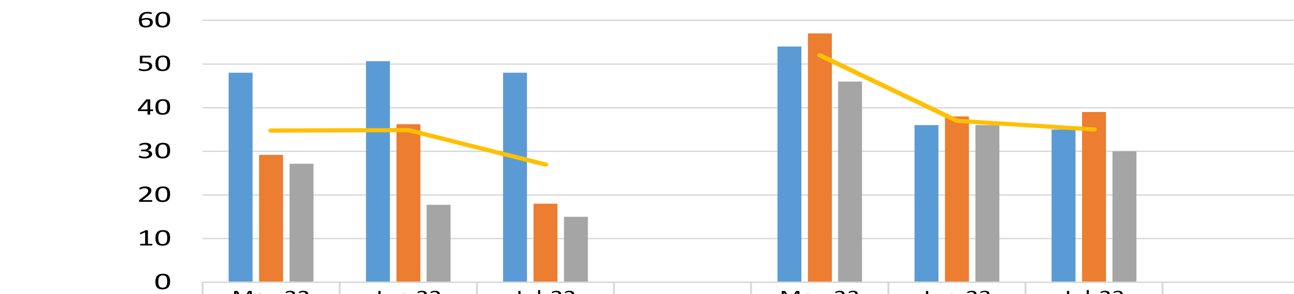
9.1. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for May, June and July. Results showed that forward hotel bookings were stronger in May 2023 compared to a similar period in 2022. The forward bookings are particulary stronger for the Nairobi and the rest of the country but slightly lower in June and July 2023 compared to 2022 . For Mombasa the forward bookings are stronger in May 2023 **(Charts 6).**

The respondents indicated that forward booking were supported by both foreign and domestic markets. The bookings levels were attributed to normal business cycle in conferencing facilities as corporate and government institutions resume conferences.

However, the respondents cited challenges relating to high cost of living, and seasonal factors relating to low season that could dampen forward bookings.

Chart 6: Hotel forward bookings (May – July 2023)



	May 22	Jun 22	Jul-22		May-23	Jun-23	Jul-23
Mombasa	48	51	48		54	36	35
Nairobi	29	36	18		57	38	39
rest	27	18	15		46	36	30
average	35	35	27		52	37	35

9.3. 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 improved optimism in the country's economic prospects by banks and nonbank private sector firms relative to the March survey **(Charts 7 & 8).**

Respondents attributed their optimism about the country's economic prospects to:

- Improved weather conditions, which was expected to support agricultural activities;
- Government initiatives to support the economy, including subsidies on agricultural inputs, and affordable housing;
- Favorable economic environment;
- Resilience of Kenya's private sector, supported by growth in industry and service sectors including tourism.

Nevertheless, the respondents cited proposed taxation measures which would increase the cost of doing business, and high fuel prices that would dampen economic activity, as factors weighing down their optimism.

Chart 7: Optimism by Banks on Economic Prospects (percent of respondents)

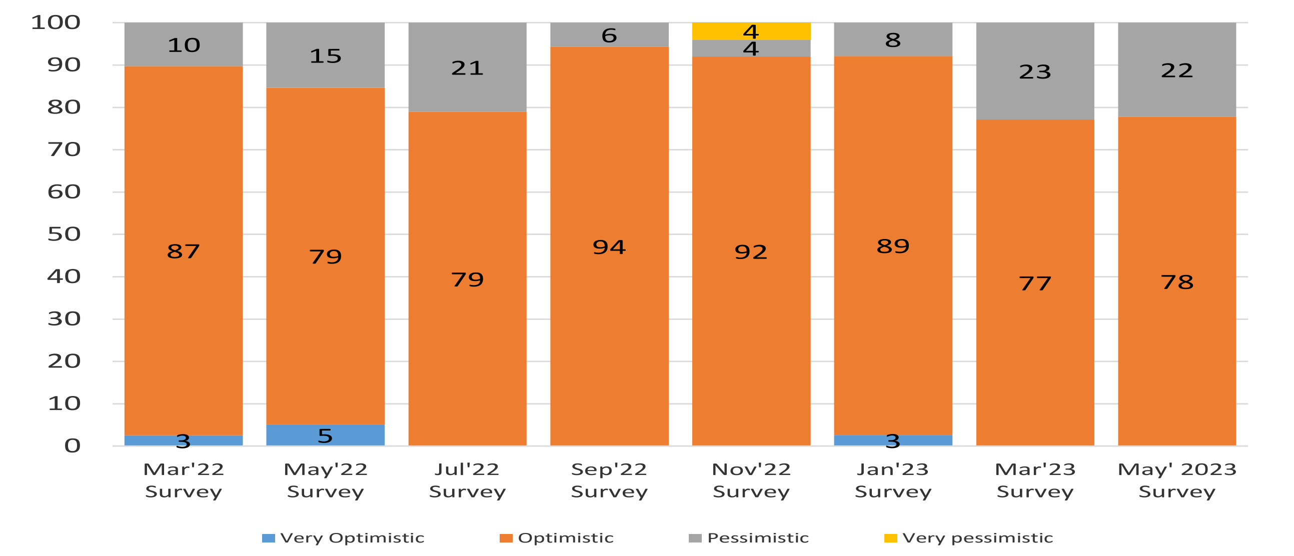
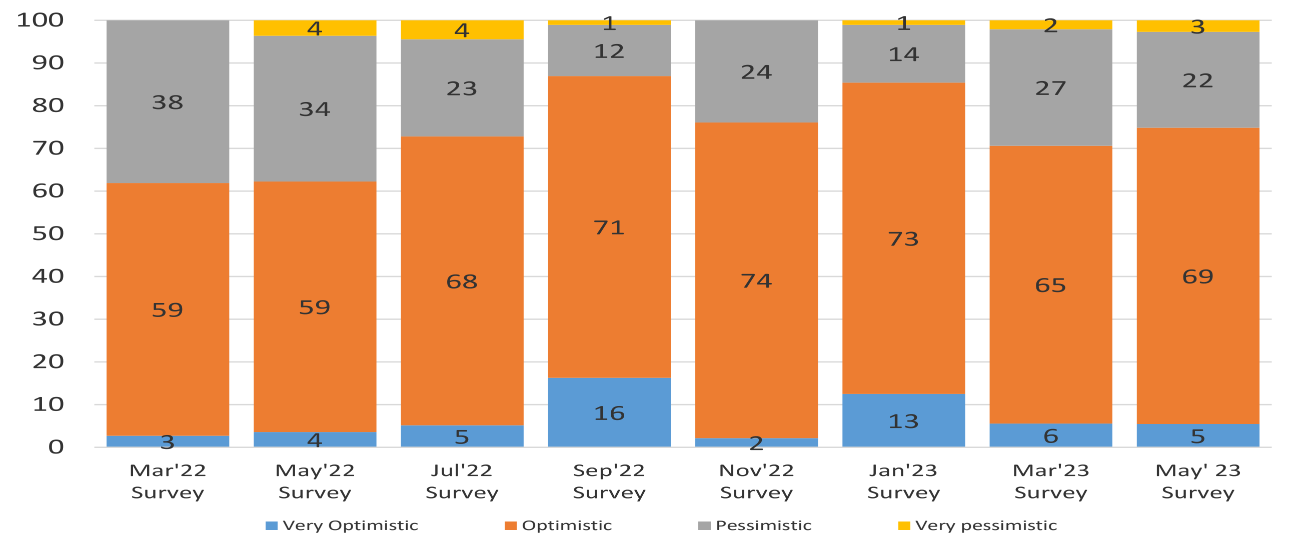


Chart 8: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



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 mixed expectations by banks and non-banks on new hires (employment) in 2023 relative to 2022 **(Chart 9).**

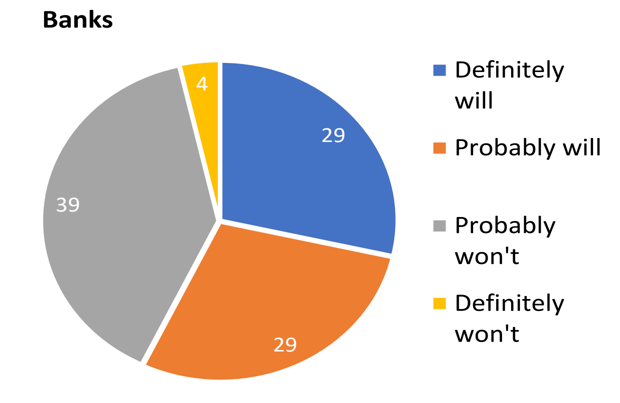
About 58 percent of the bank respondents expected increased employment to be supported by planned expansions, replacements/filling of existing human capacity gaps, and building sufficient capacity to meet the ongoing digitization of bank services. In addition, some banks indicated they would ensure that new hires are consistent with the required cost/ income ratios.

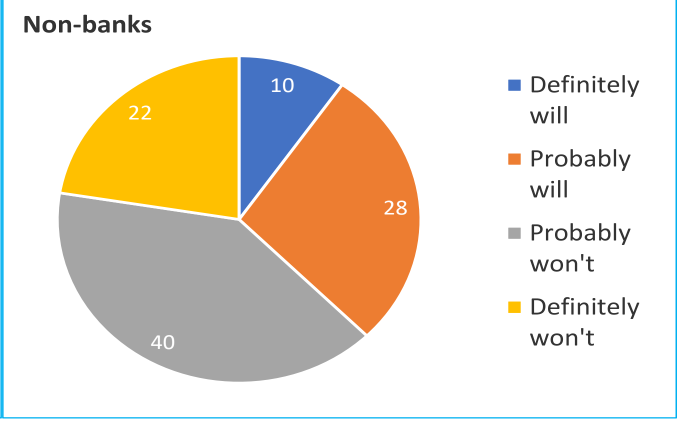
However, some banks expected to utilize the existing resources to maximize service delivery, while focusing on improving efficiency.

Non-bank respondents expected employment to be largely supported by expected growth in business and expected increase in demand (38 percent respondents).

However, some firms expected low production volumes, occasioned by higher input costs, expensive imports, and low demand to slow down new hires.

Chart 9: Expectations on employment levels for 2023 relative to 2022 (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 May and June 2023.

Respondents expected support for the Shilling to come from diaspora remittances, and increased exports. Additionally, some respondents expect the recent reforms in foreign exchange market particularly the government to government initiative in oil importation, to ease pressure on the shilling in the coming months.

However, some respondents expected pressure on the shilling from sustained demand from importers and continued stronger US dollar globally due to its strong yield and safety appeal, and government's external debt obligations.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested a number of interventions that could improve the business environment: tax laws that would unlock more capital; accelerated implementation of risk-based pricing framework to support SME segments that have been excluded from accessing credit; effective use of information credit reference bureaus; and streamlining the Ardhisasa process in the ministry of lands for security perfection to be faster. Aditionally, they proposed continued encouragement of public- private sector partnerships to enable creation of investment opportunities across all economic sectors.

Non-bank private firms on the other hand suggested low costs of farm inputs, tax free provisional policies on farm inputs, accessibility of funds to farmers and encouragement of more farmers to engage in agricultural production.

In addition, respondents suggested review of taxation policies, prompt settlement of pending bills to suppliers by the national and county governments to enhance cashflow as well as more collaborative interactions with regulators and government players to foster business environments.

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