Central Bank of Kenya

Market Perceptions Survey

March 2025

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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 allows 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 March 2025 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 three months (December 2024, January and February 2025), expectations for the next three months (April, May and June 2025), the next one year (April 2025 – March 2026), the next two years (April 2025 – March 2027), and the next five years (April 2025 – March 2030).

The Survey also inquired about the levels of demand for credit in the next two months and expected private sector credit growth for 2025. In addition, the Survey interrogated market expectations on inflation, economic growth, lending rates, levels of operations by companies, and demand for credit.

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 353 private sector firms comprising 37 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 March 2025 Survey was 71 percent of the sampled institutions. The respondents comprised 37 commercial banks, 13 micro-finance banks, and 202 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 March 2025 Market Perceptions Survey included:

1. Respondents expect overall inflation to be low and stable in the next three months and to be anchored around the 5 percent target in the medium term on account of slow-down in global oil prices, easing food prices and a stable shilling.
2. Respondents expect a pick-up in economic growth in 2025 with better agriculture

performance, reduced cost of borrowing and a stable macroeconomic environment.
3. The survey showed mixed hiring expectations by banks and non-bank private firms for 2025
4. Bank respondents expect recovery in private sector credit growth in 2025 largely due to declining lending rates.
5. The survey revealed sustained optimism by respondents about Kenya's economic prospects in the next 12 months.
6. Demand for credit by non-bank players, mainly for working capital needs is expected to increase in the second quarter of 2025, with lower lending rates.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next three months (March, April and May 2025), the next 12 months (March 2025- February 2026), the next 2 years (March 2025 – February 2027), and the next 5 years (March 2025 – February 2030). Respondents expected inflation to remain stable, below the midpoint of the target range in the next three months, supported by moderating global oil prices, easing prices of agricultural produce with the ongoing long rains, and a stable Shilling **(Table 1).**

Respondents expect moderating global oil prices to reduce inflationary pressures by leading to lower local pump prices, transportation costs, electricity costs and production costs. In addition, respondents expect increased agricultural produce and food supply supported by the ongoing long rains.

Furthermore, respondents expected positive exchange rate pass through effects of a stable currency to support cheaper imports.

Nevertheless, respondents identified the elevated global uncertainities as a key risk to oil prices and inflation. In addition food prices may increase in case of less than average long rains.

Table 1: Inflation expectations (percent)

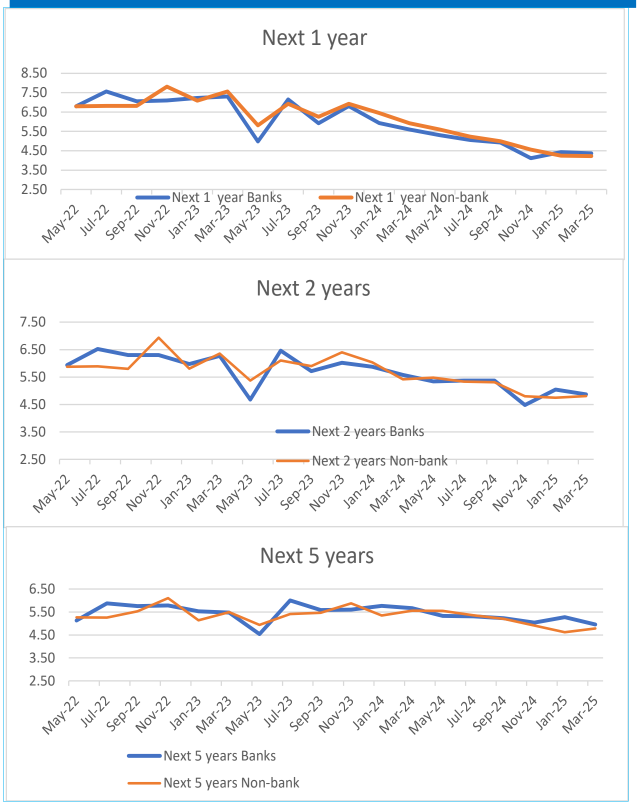
Survey month	Inflation expectations			Actual inflation
		Banks	Non-banks	
Jan-23	Jan-23	9.03	8.88	8.98
	Feb-23	8.87	8.79	9.23
Mar-23	Mar-23	9.23	8.87	9.19
	Apr-23	9.12	8.91	7.90
May-23	May-23	7.98	7.39	8.03
	Jun-23	7.81	7.40	7.88
Jul-23	Jul-23	8.01	7.83	7.28
	Aug-23	8.07	7.83	6.73
Sep-23	Sep-23	6.45	6.54	6.78
	Oct-23	6.27	6.52	6.92
Nov-23	Nov-23	6.97	7.02	6.80
	Dec-23	7.16	7.12	6.60
Jan-24	Jan-24	6.67	6.83	6.85
	Feb-24	6.63	6.77	6.31
Mar-24	Mar-24	6.10	6.07	5.70
	Apr-24	6.05	5.95	5.00
May-24	May-24	4.97	5.09	5.14
	Jun-24	4.96	5.19	4.64
Jul-24	Jul-24	4.66	4.71	4.31
	Aug-24	4.81	4.67	4.36
Sep-24	Sep-24	4.44	4.65	3.56
	Oct-24	4.38	4.72	2.72
Nov-24	Nov-24	2.79	2.99	2.75
	Dec-24	2.96	3.11	2.99
Jan-25	Jan-25	3.20	3.29	3.28
	Feb-25	3.53	3.43	3.45
	Mar-25	3.60	3.57	3.62
Mar-25	Apr-25	3.89	3.69	
	May-25	3.84	3.79	

Over the medium term, respondents expected inflation to remain anchored close to the midpoint of the target range on account of expected stability in food prices and lower fuel prices **(Chart 1).**

Respondents expected food stability in the near term, supported by favorable weather and government strategies such as subsidizing agricultural production including fertilizer subsidy.

Additionally, respondents anticipated that a moderation in global oil prices due to increased global production, and domestic efforts to transition from fossil fuels to renewable energy would keep fuel inflation low.

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



However, respondents identified several risks to medium-term inflation, including geopolitical uncertainties that may disrupt supply chains and increase logistics costs, adverse trade policies as well as unpredictable weather patterns that could impact on food supply.

6. ECONOMIC ACTIVITY

The March 2025 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in January, February and March 2025, and their expectations for April, May and June 2025. Respondents expected improved economic activity in the next three months **(Charts 2 & 3).**

Respondents expected moderate to strong and very strong activity in the next three months largely supported by anticipated pick up in lending to the private sector due to low interest rates, favorable weather, end of financial year government expenditure and a stable macroeconomic environment.

However, respondents were concerned about the geopolitical tensions in neighbouring countries, the effects of the global trade tensions due to the US hiked tariffs on imported goods and the unpredictable weather conditions.

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

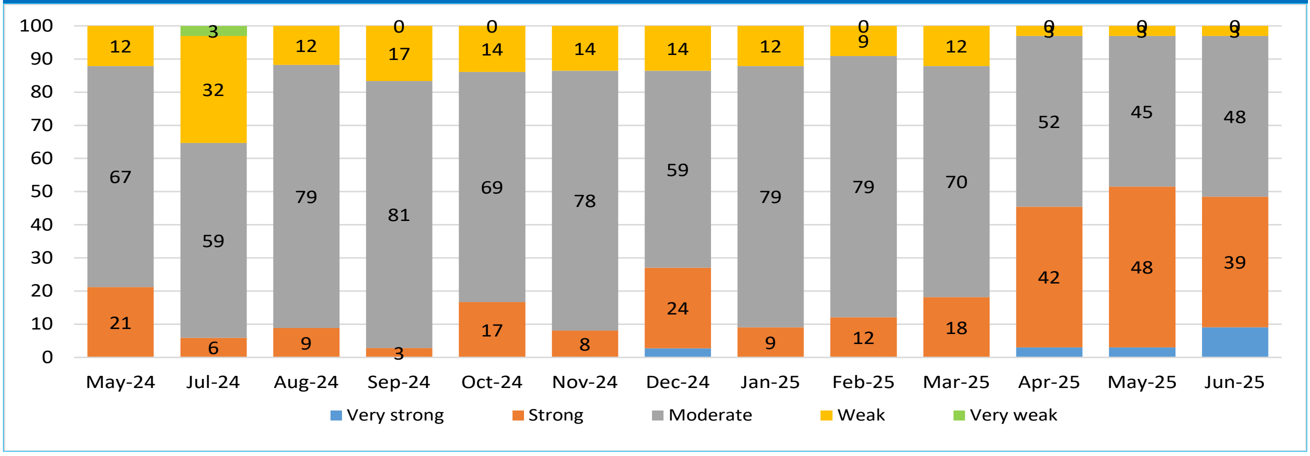
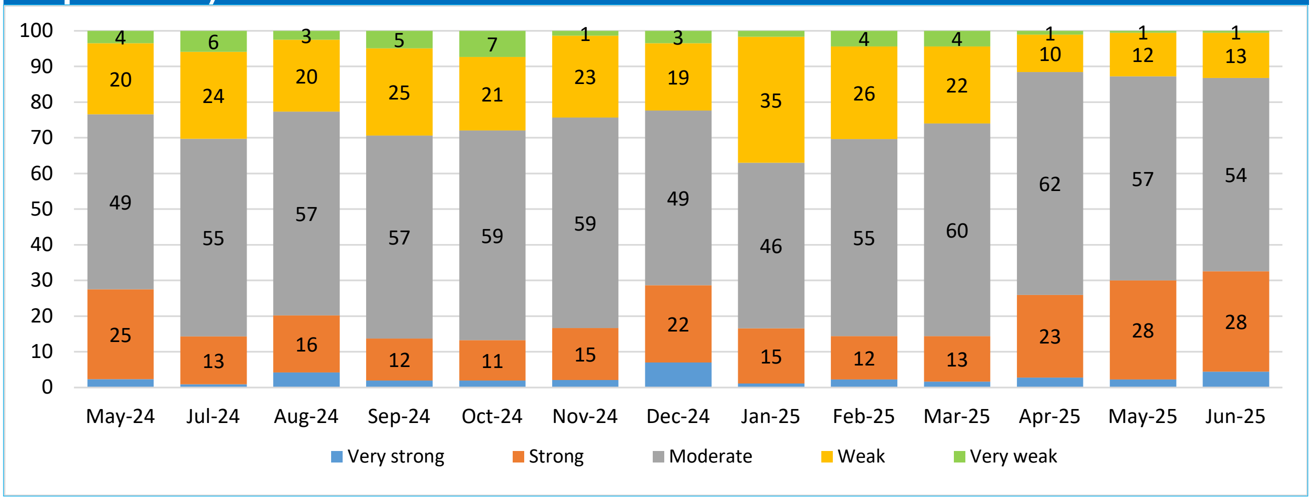


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



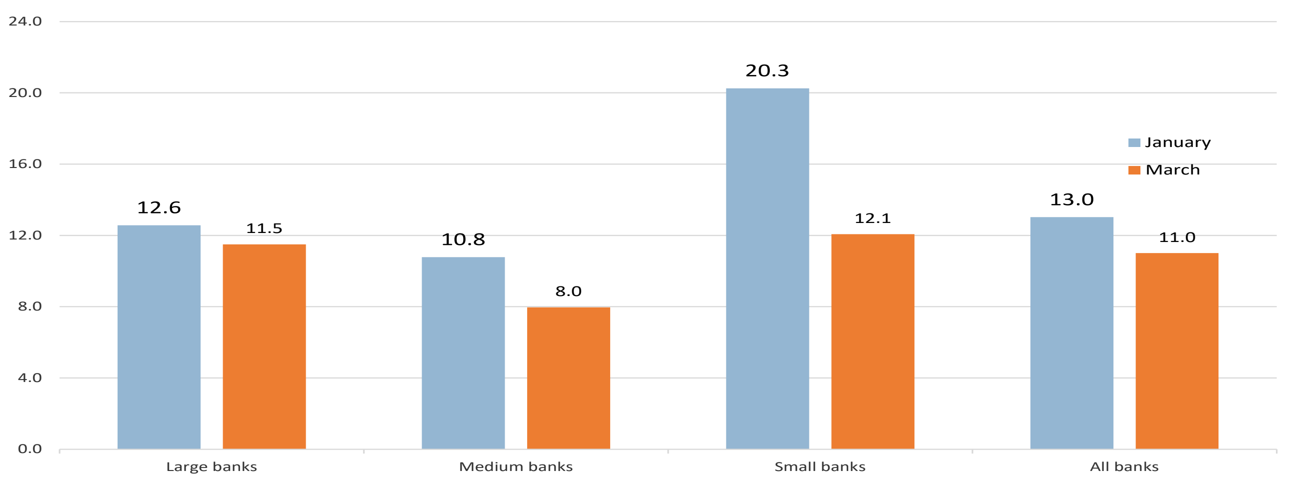
7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit at end December 2025

The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector by end December 2025 compared with end December 2024. Respondents in the March survey slightly lowered their expectations on private sector credit growth in 2025 compared to the January survey due to elevated credit risk and subdued consumer demand **(Chart 4).**

However, respondents indicated that private sector credit is expected to recover in line with the gradual improvement of key sectors of the economy. In addition, the decline in lending rates, reduction in the cash reserve ratio, Banks' commitment to support MSMES, new products, are expected to support the uptake of credit.

Chart 4: Expectations on private sector credit growth 2025 (percent)



7.2. Expected demand for credit by banks

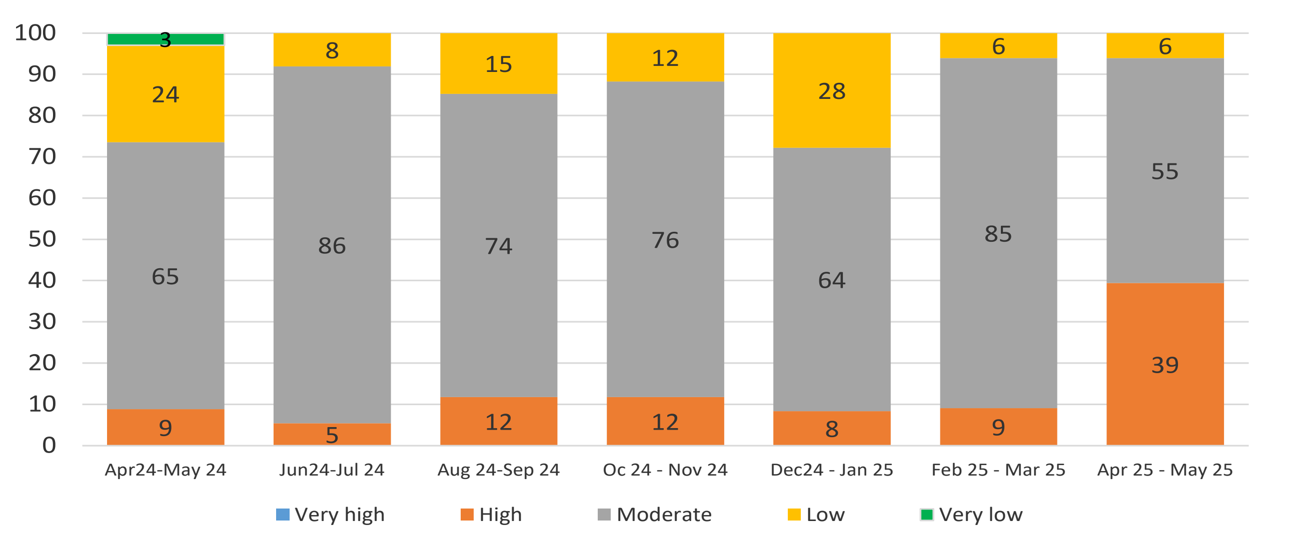
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (February and March 2025), and their expectations for April and May 2025. Respondents reported moderate demand for credit between February and March and expected increased demand for credit in the next two months **(Chart 5).**

Bank respondents expected demand for credit to be largely driven by companies taking advantage of reduced interest rates in 2025 to finance working capital needs and capex financing to implement the business plans and strategies for the year 2025 and improve cash flows for business in trade, especially for imports.

In addition, respondents expect favourable economic conditions, stable inflation and stable local currency to spur demand for credit in the next few months.

Nevertheless, bank respondents expect demand for credit to be tempered by reduced disposable incomes due to increased statutory levies affecting households and corporates as demand for products decreases.

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



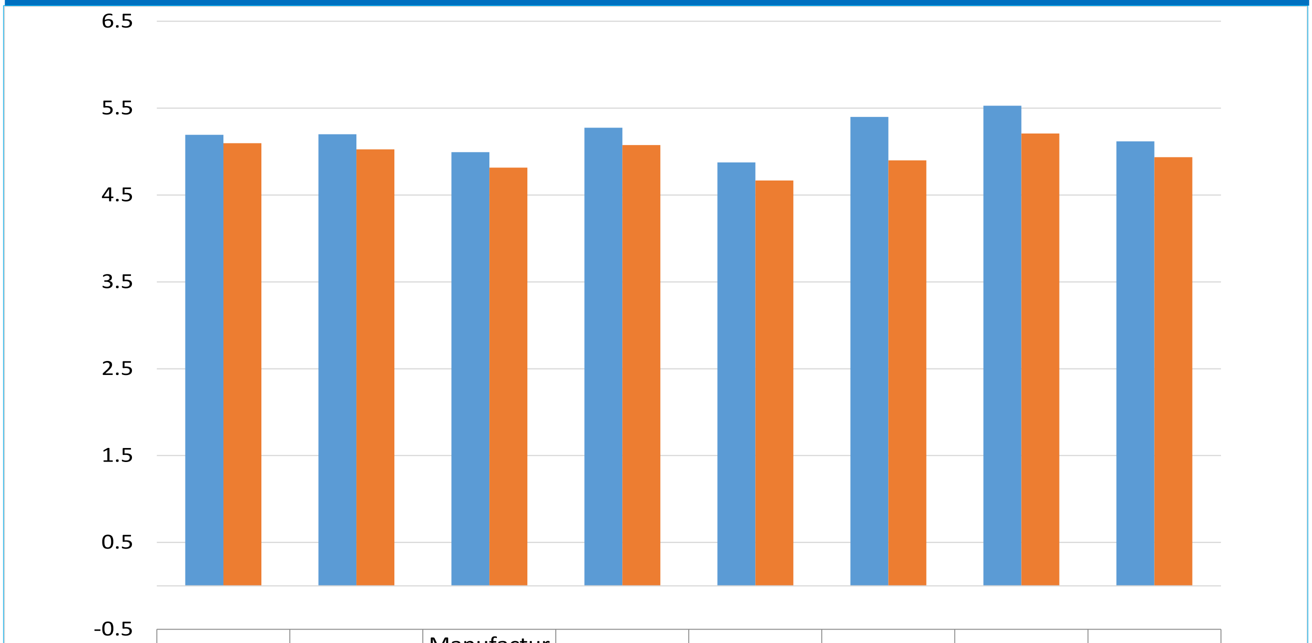
8. EXPECTED ECONOMIC ACTIVITY

The Survey requested participants to indicate their expected economic growth rates for the country in 2025 **(Chart 6).**

Respondents expected agriculture to continue driving economic performance in 2025 largely due to expectations of favourable weather and benefits from reforms by government in the sector. In addition, improved private sector activity, stimulated by increased private sector credit growth due to lower lending rates and stable macroeconomic environment, are expected to support growth.

However, risks to economic growth expectations cited by respondents included the impact of global trade tensions on the local economy, fiscal consolidation, high debt to GDP ratio, high taxation and the increased cost of production.

Chart 6: Expectations on economic growth for 2025 (percent)



	Banks	Agriculture	Manufacturing	Trade	Real estate	Transport	Tourism	Non-bank
January	5.2	5.2	5.0	5.3	4.9	5.4	5.5	5.1
March	5.1	5.0	4.8	5.1	4.7	4.9	5.2	4.9

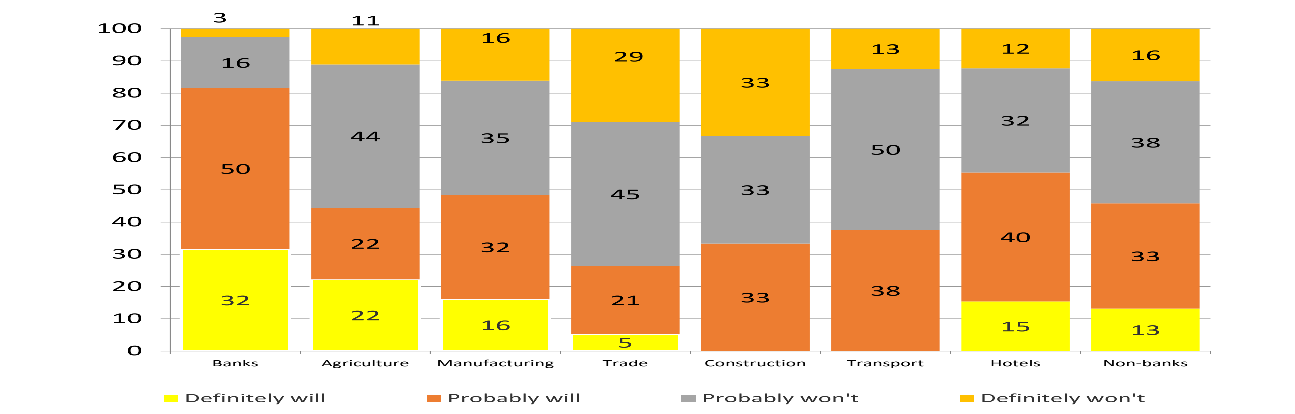
9. EMPLOYMENT EXPECTATIONS

Respondents were asked on whether they expected to increase the number of employees in 2025 relative to 2024. The results showed mixed expectations by banks and non-banks **(Chart 7).**

Banks largely expect to hire more in 2025 supported by continued branch expansion and growth in business launch of new products, and to replacing exiting staff.

Non-bank players had mixed expectations about hiring in 2025. 38 percent of the respondents indicated that they would not hire due to rising operational costs, increased taxes and levies, and delayed government payments. On the other hand, 32 per cent of the respondents indicated that they would hire to support business expansion, replace exiting staff and attract new talent.

Chart 7: Employment expectations for 2025 compared with 2024 (percent)

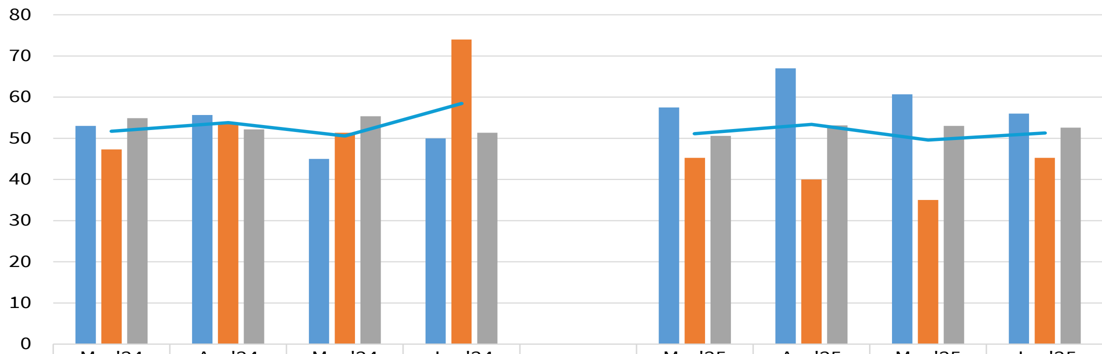


10. OPTIMISM ON THE ECONOMIC PROSPECTS

10.1 Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for the period March to June 2025. The survey revealed levels of average forward hotel bookings similar to those during a similar period in 2024 **(Chart 8).**

Chart 8: Hotel forward bookings (March – June 2025)



	Mar'24	Apr'24	May'24	Jun'24		Mar'25	Apr'25	May'25	Jun'25
Mombasa	53	56	45	50		58	67	61	56
Nairobi	47	54	51	74		45	40	35	45
rest	55	52	55	51		51	53	53	53
average	52	54	51	58		51	53	50	51

Mombasa Nairobi rest average

Respondents alluded that the forward bookings have been impacted by online systems that provide for short-term booking cycles, with clients booking events in under 10 days. Additionally, they highlighted weak consumer purchasing power and reliance on walk-in clients as factors affecting advance bookings **(Chart 8).**

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 expressed sustained optimism about Kenya's economic prospects for the next 12 months **(Charts 9 & 10).**

The optimism was largely attributed to stable macro-economic factors which are expected to support the business environment, along with the expectations that banks will lower interest rates and improve access to financing for businesses following the reduction of the cash ratio requirement and CBR rate.

In addition, respondents expect global oil prices to remain stable which could help reduce price pressures and boost business activity.

However, the main risk to this optimism cited by respondents was taxation and increased statutory deductions which have lowered the purchasing power of consumers and reduced aggregate demand.

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

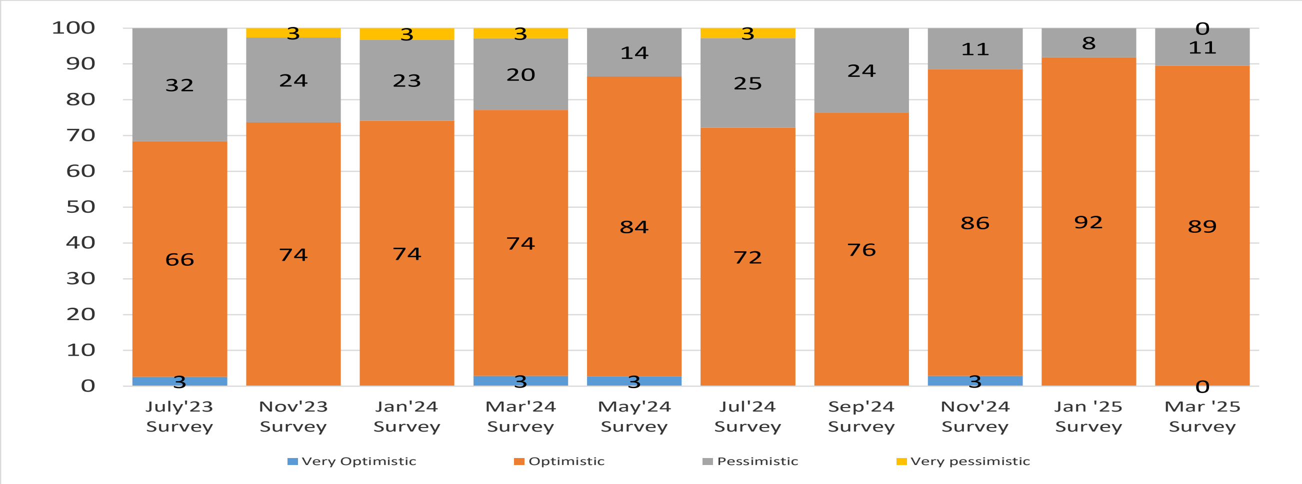
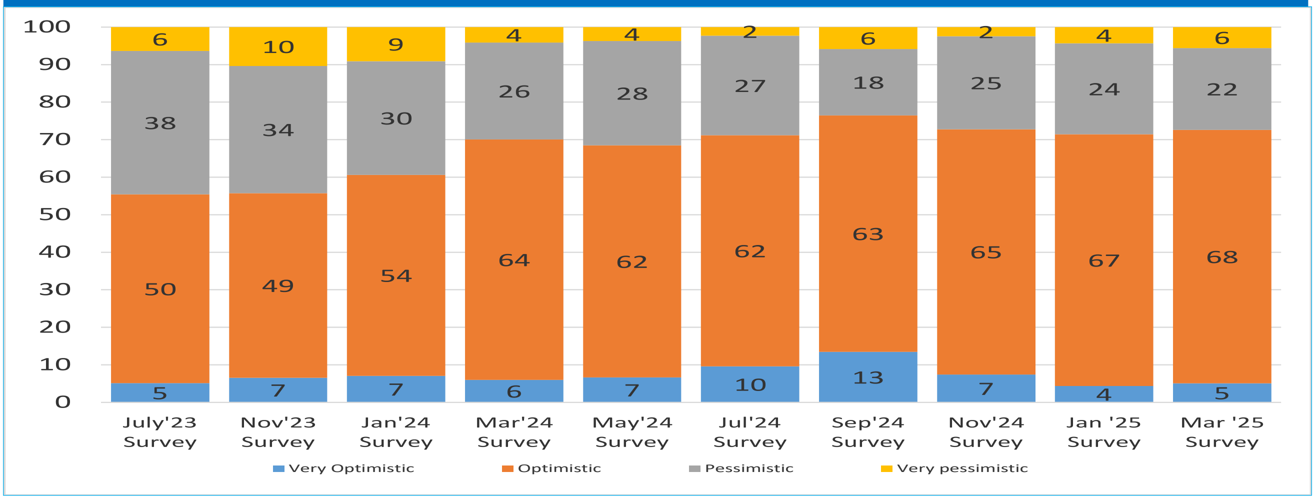


Chart 10 Optimism in growth prospects by non-bank private sector (% respondents)

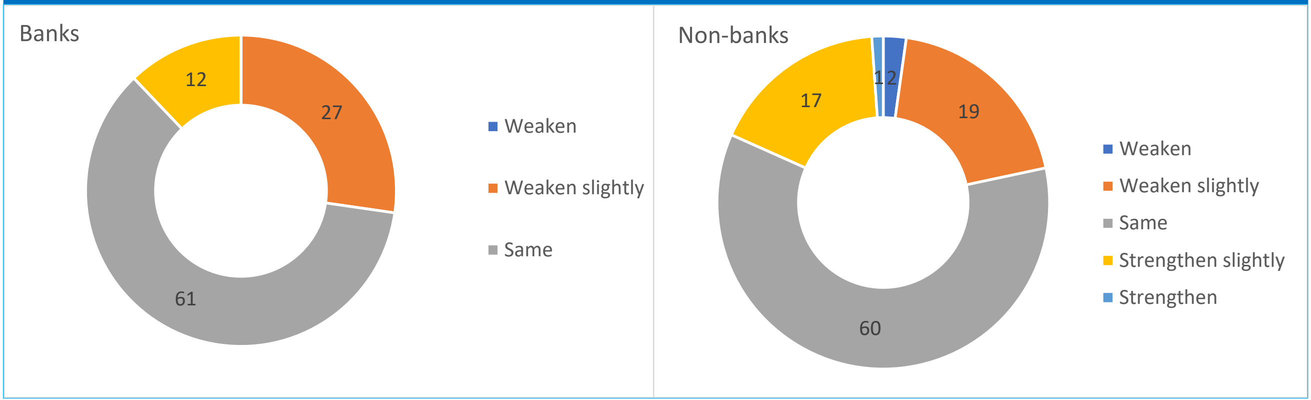


11. EXCHANGE RATE EXPECTATIONS

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 April and May 2025.

Respondents expected the exchange rate of the Ksh against the USD to remain largely at the current levels in the next 2 months **(Chart 11).**

Chart 11: Exchange rate expectations (% respondents)



Respondents expected support for the shilling to come from the adequate forex reserves which serve as a buffer against any short-term shocks in the foreign exchange market.

Additionally, low international fuel prices and inflows from diaspora remittances and agro-exports are expected to support the shilling.

The main risk to the shilling stability included increased demand from importers and from dividend payments, structural trade deficits with the ongoing global trade wars, and reduced USD inflows owing to tariff measures adopted by the US government.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Respondents emphasized the need for urgent payment of pending bills by both national and county governments, noting that this would improve liquidity, reduce non-performing loans, and stimulate broader economic activity. Respondents expect a stable and predictable tax environment. They also recoomended elimination of punitive or overly complex tax regulations, and reversal of levies which have affected the business environment. To support business growth, respondents advocated for improved access to affordable financing, including lower interest rates, simplified collateral registration, and expansion of government-backed credit guarantee schemes for SMEs.

The respondents also highlighted the importance of effective communication from regulators, and streamlined judicial processes for commercial disputes. Respondents further stressed the need for strengthening regional trade relationships to foster a conducive and competitive business environment.

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