



Central Bank of Kenya

Monetary Policy Committee Market Perceptions Survey

March 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 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 70 percent of real 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 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 (January and February), and expectations for the next two months (March and April), and the next one year (March 2021 – February 2022).

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

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 316 private sector firms comprising 38 commercial banks, 1 mortgage finance institution, 14 microfinance banks (MFBs) and 263 non-bank private firms, including 63 hotels, through questionnaires sent in hard copy and by email. The overall response rate to the March 2021 Survey was 68 percent of the sampled institutions. The respondents comprised 38 commercial banks, 1 mortgage finance institution, 13 micro-finance banks, and 164 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 takeaways from the March 2021 Market Perceptions Survey included:

- Sustained optimism in the country's economic prospects for the next 12 months largely attributed to the rollout of the COVID-19 vaccine;
- Expectations of improved economic activity in March and April as the economy recovers from the impact of the virus and containment measures;
- Upward revision of economic growth expectations for 2021 relative to the previous survey, largely due to expected rebound in all sectors that had been affected by COVID -19 in 2020;
- Mixed expectations by different sectors on employment in 2021 relative to 2020, largely due to the expected varying pace of post-COVID-19 recovery;
- Expectations of an increase in private sector credit growth in 2021 by banks largely due to pick-up in economic activity; and
- Inflation expectations remain anchored due to low food prices.

5. ECONOMIC ACTIVITY

The March 2021 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in January and February 2021, and their expectations for March and April 2021. Respondents reported improved economic activity in January and February 2021 and expected a further improvement in March and April 2021 (**Chart 1**).

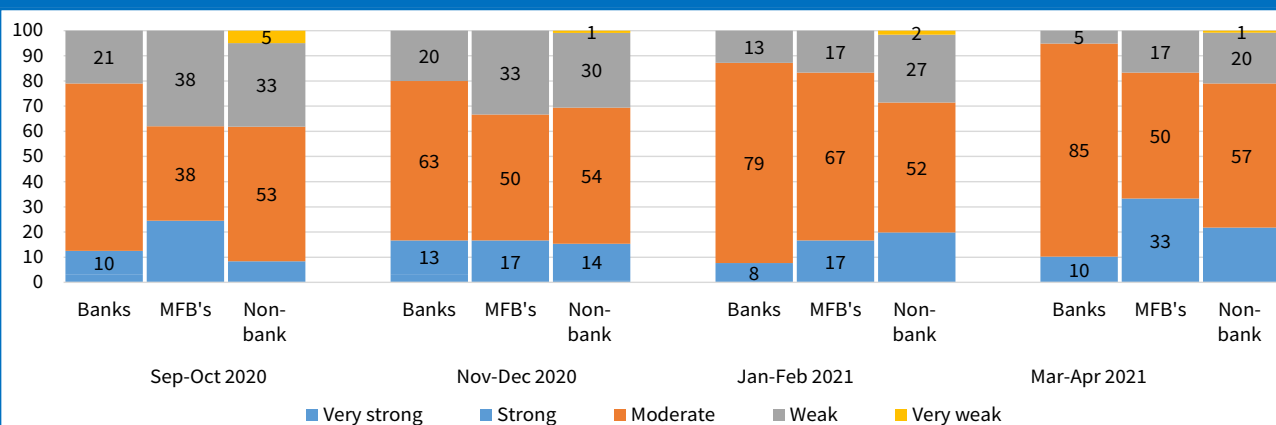
In this Survey, 81 percent of respondents indicated that the reopening of the economy with the easing of restrictions after the COVID-19 closures, and resumption of near-normal business by virtually all sectors, were expected to increase economic activity in the next 2 months. Respondents expected increased government spending on projects to further increase economic activity as the economy recovered from the impact of the pandemic. Additionally, 36 percent of respondents pointed out that, economic activity would benefit from improved business confidence following the rollout of the COVID-19 vaccine, while 29 percent of respondents anticipated favourable weather and agricultural reforms to boost economic activity in the next 2 months.

However, 44 percent of respondents expected economic activities to be tempered by increased COVID-19 infections resulting from the third wave

and new strains of the virus. In addition, 33 percent of respondents expected low disposable incomes, due to job losses, salary cuts, reversal of some policy interventions which were put in place to cushion businesses and individuals from the impact

of the virus, and likely increases in prices of goods and services arising from increases in input costs, including oil prices, to lead to lower activity in the next 2 months.

Chart 1: Economic activity from September 2020 to February 2021 and expectations for March and April 2021 (percent of respondents)



6. EXPECTED CHANGES IN EMPLOYMENT

The Survey asked respondents to indicate their expectations with regard to change in the number of employees in their respective institutions in 2021 relative to 2020. Expectations for employment in 2021 relative to 2020 varied according to sectors **(Charts 2 & 3)**.

Most banks expected to maintain their current workforce, though some expected expansions in the course of the year that would require more staff, while others did not plan to replace any exiting staff. Hotels indicated expectations of increased business, hence employment, with the arrival of the vaccine, while others reported that low business prevented them from recalling all the employees after COVID-19

closure, and that they had resorted to multi-skilling to cut costs.

Agriculture sector respondents reported improved demand and expected hiring in 2021 compared to 2020, while others cited reduced production, and those in the tea sector cited the new tea Act, which requires restructuring and cutting labour costs through outsourcing strategies.

Respondents from the manufacturing sector expected to maintain the current employees. Some, however, expected to reduce workforce in order to cut costs due to higher production costs and low demand.

Chart 2: Expectations on employment levels for 2021 relative to 2020 (percent of respondents)

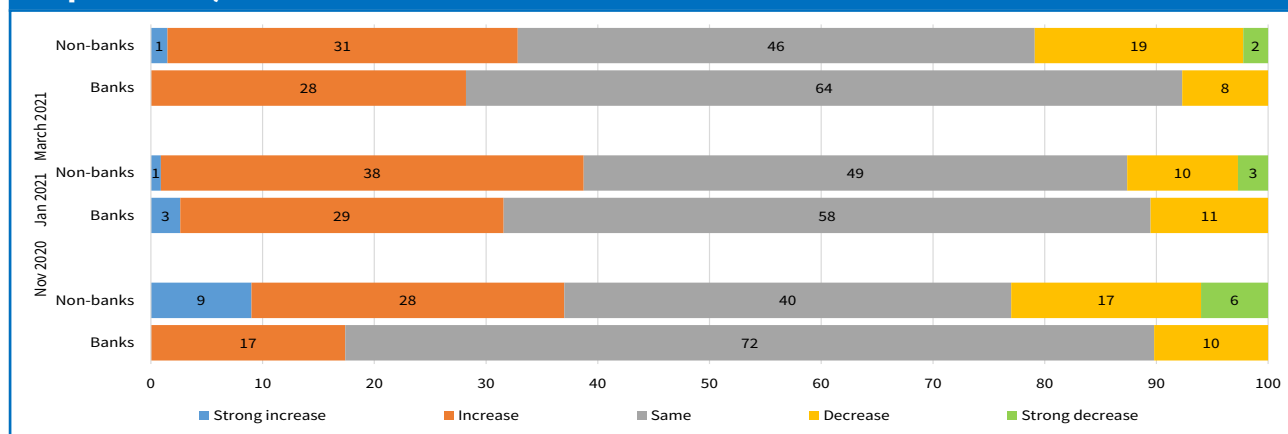
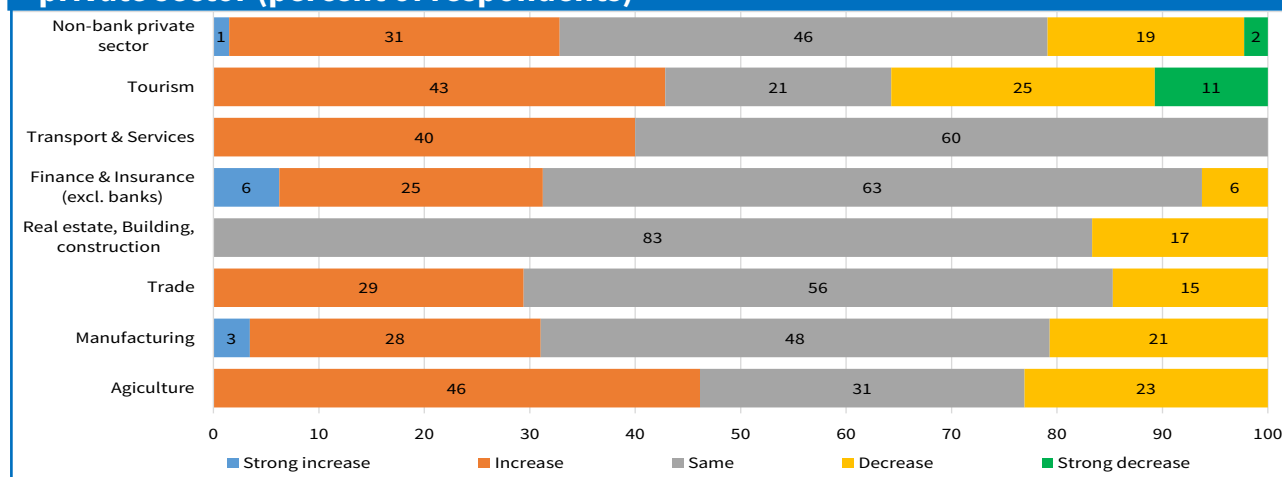


Chart 3: Expectations on employment levels for 2021 relative to 2020 – non-bank private sector (percent of respondents)



7. EXPECTED ECONOMIC GROWTH

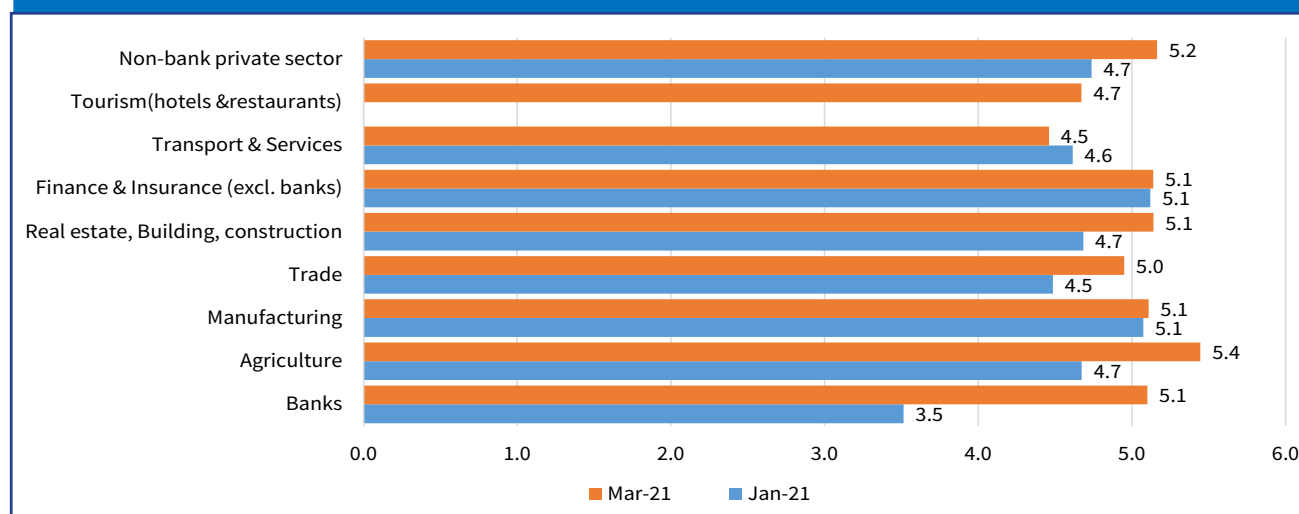
The Survey requested participants to indicate their estimated economic growth rate for the country in 2021. Respondents, despite remaining cautiously optimistic, revised upwards their January 2021 Survey growth rates expectations (**Chart 4**).

In the Survey, 76 percent of respondents expected a rebound in sectors affected by COVID-19 in 2020, with eased restrictions and an accommodative monetary policy, which they expected would provide momentum for economic growth in 2021. Additionally, 57 percent of respondents expected the vaccine rollout in the country to manage the spread

of the virus and boost business confidence and economic recovery. About 21 percent of respondents expected increased agricultural production due to favourable weather conditions, to contribute to economic growth in 2021.

Risks to growth expectations in 2021 included uncertainty due to new strains of COVID-19 and lingering effects of the pandemic locally and globally, as cited by 68 percent of the respondents, and unpredictable weather, cited by 26 percent of respondents.

Chart 4: Expectations on economic growth for 2021 (percent)



8. OPTIMISM ON THE ECONOMIC PROSPECTS

The March 2021 Survey requested bank and nonbank private sector firms to indicate how optimistic/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 5 & 6**).

About 83 percent of respondents attributed their optimism in the March Survey to the vaccine rollout, which, they expected, would help manage the COVID-19 situation in the country, allow easing of travel restrictions, boost confidence and result in a

rebound in the local and global economy. Increased government spending on key infrastructure projects under the **Big-4** projects, and on various COVID-19 mitigation measures, e.g., kazi mtaani, etc, was cited by 54 percent of respondents, while 32 percent of respondents cited the favourable weather forecast, expected to support agricultural performance.

However, risks to this optimism included political noise with the approaching elections, cited by 33 percent respondents, uncertainty due to COVID-19 mutations, cited by 29 percent of respondents, and concerns with regard to public debt, cited by 17 percent of respondents.

Chart 5: Optimism by Banks on Economic Prospects (percent of respondents)

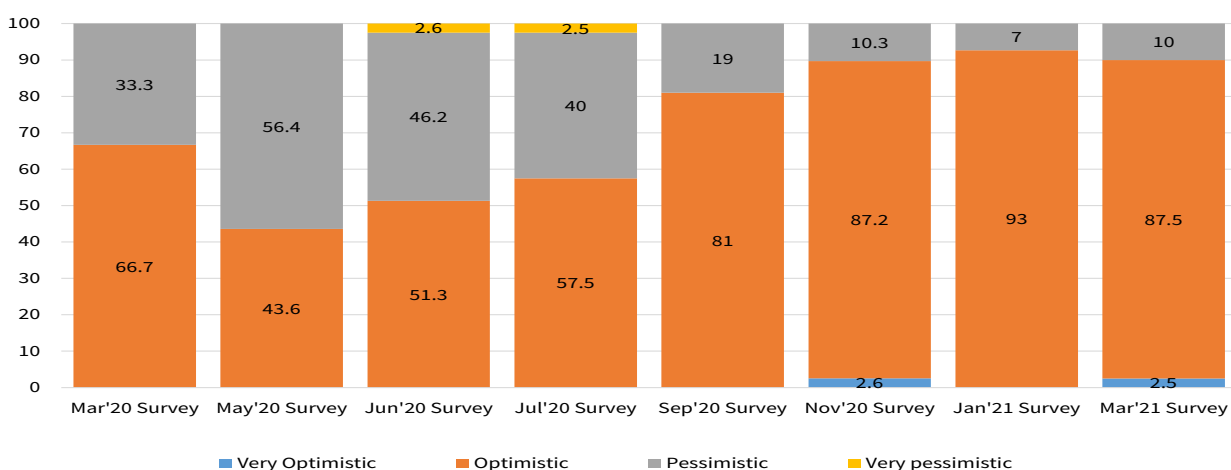
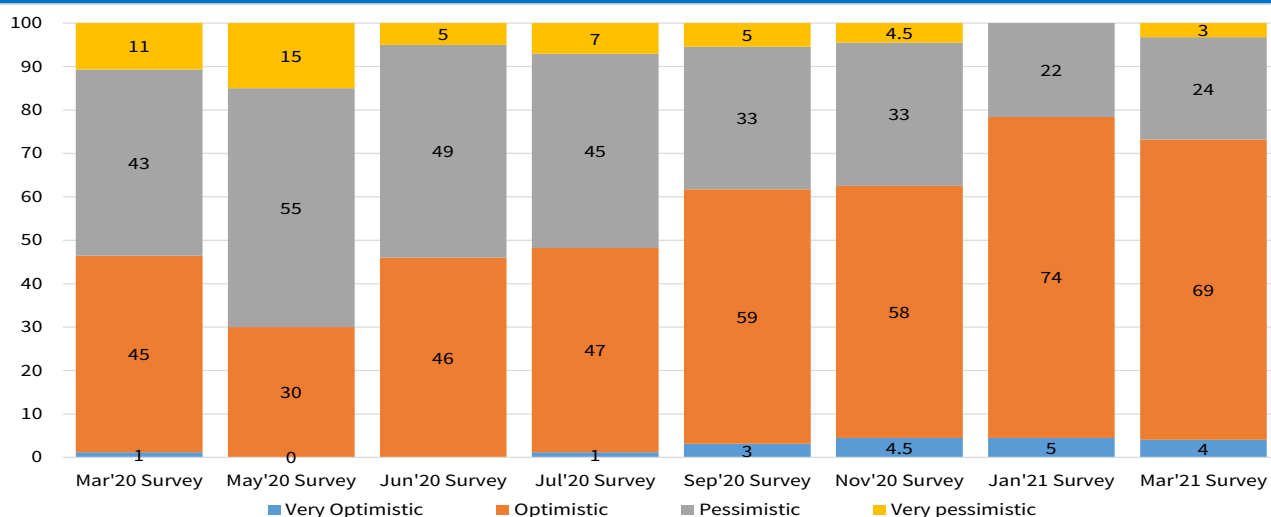


Chart 6: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



9. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

9.1. Growth in private sector credit in 2021

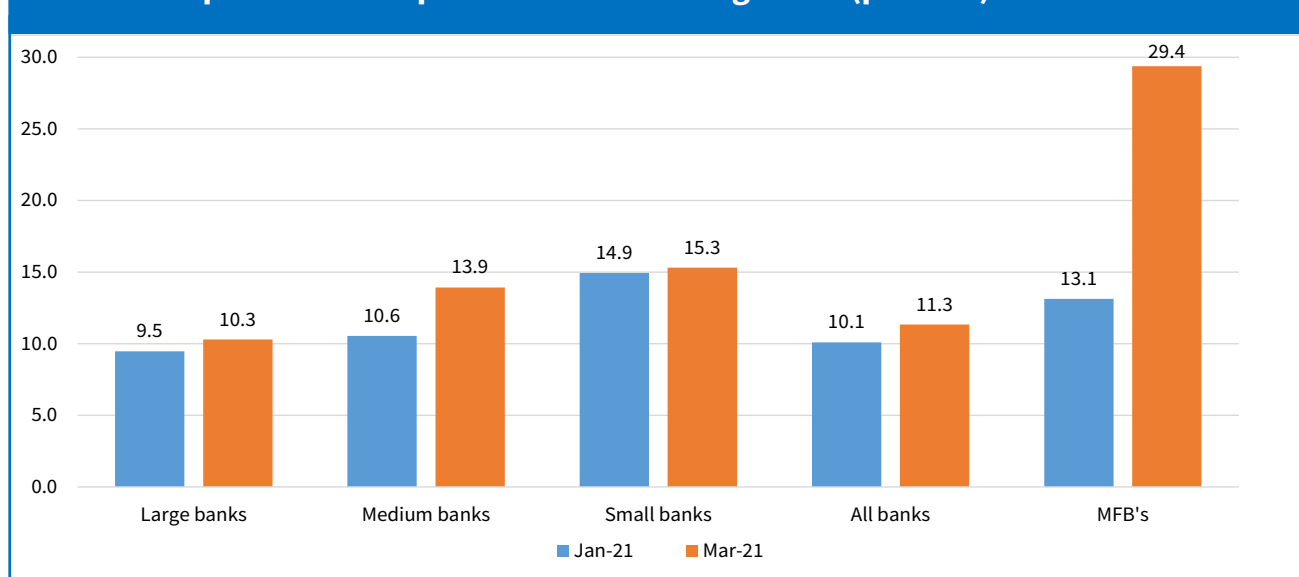
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector in 2021 relative to 2020.

Bank respondents revised upwards private sector credit growth expectations for 2021 in the March Survey (**Chart 7**). 82 percent of the respondents attributed the expected increase to increasing credit demand resulting from resumption of near-normal business activities due to the lifting of COVID restrictions and Government spending on projects, and a rebound in the economy, enabled by the Government's efforts to contain the virus, including the rollout of the vaccine. In addition, respondents expected growth in key economic sectors and

improved business sentiments as the world economy rebounds. About 39 percent of respondents expected credit to private sector to increase as banks respond to the need to support sectors affected by the pandemic, including SMEs, through development of innovative credit products.

However, respondents cited risks to private sector credit growth including the impact and uncertainty of the COVID-19 pandemic which has elevated credit risks significantly, possible retrenchments, extended pay cuts for individuals and staff sent on unpaid leave, and delays by both National and County governments in settling pending bills.

Chart 7: Expectations on private sector credit growth (percent)



9.2. Expected demand for credit

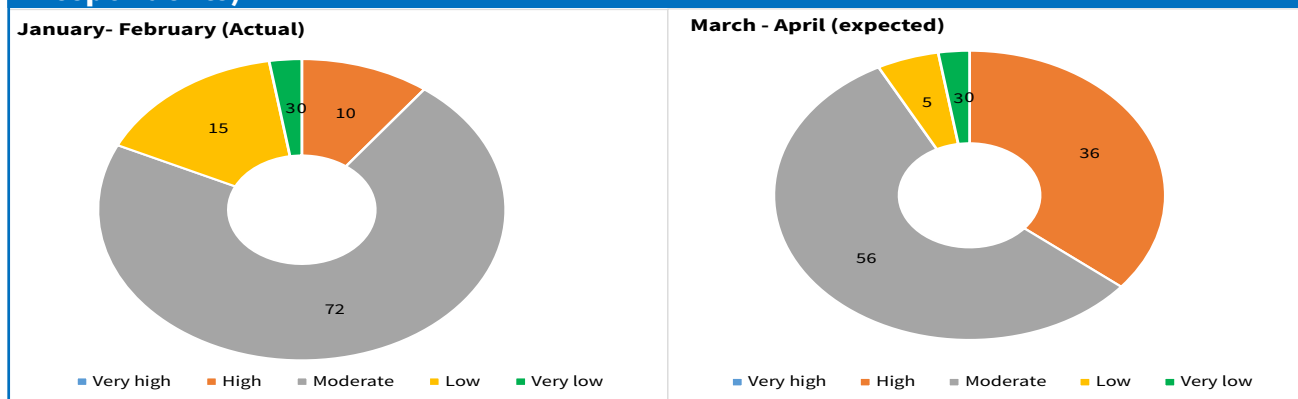
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. January and February), and their expectations for March and April 2021 (**Chart 8**).

Respondents expected increased demand for credit in the next 2 months, driven by a pick-up in most sectors supported by increased business confidence following the vaccine rollout and easing of containment measures, government's continued

efforts to manage the pandemic, increased spending from pent up demand and government initiatives to stimulate the economy.

Respondents, however, expected low disposable incomes aggravated by the pandemic, increase in inflation, reversal of the tax reprieve offered to cushion citizens during the pandemic and a wait and see attitude by investors as elections approach, to moderate demand for credit in the next 2 months.

Chart 8: Expectations on Demand for credit from banks' perspective (percent of respondents)



10. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next 2 months, March and April 2021, and for the next 12 months (March 2021 – February 2022).

Respondents expected inflation to remain well anchored within the target range supported by low food prices expected with the onset of long rains (Table 1).

However, respondents expected some upward pressure from higher oil prices.

Respondents expect Inflation in the next 12 months to be higher than in 2020, but to remain within the target band, as consumer demand picks up with the anticipated increase in economic activity in most sectors.

Table 1: Inflation expectations for March and April 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
Mar-Apr 2020	6.0	5.8	6.4	6.4	6.5	6.0
May-Jun 2020	5.5	6.1	5.7	5.6	6.0	6.1
Jul-Aug 2020	4.8	4.9	4.8	4.8	4.6	4.7
Sep-Oct 2020	4.6	4.6	4.5	4.6	4.6	4.8
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
Next 1 Year	6.1	5.9	5.8	6.0	5.4	6.0

11. EXCHANGE RATE EXPECTATIONS

The Survey sought to find out 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 March and April 2021. Expectations were varied across banks and

nonbanks on the direction of the Shilling to US Dollar exchange rate. Respondents expected the Shilling to be supported by horticultural inflows, expected to offset some dividend repatriation outflows, and increased external funding.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Bank respondents pointed out the need for settlement of pending bills by national and county governments to unlock liquidity, and the need for more economic stimulus packages and tax incentives to support business continuity post COVID. Other suggestions included a quick roll out of COVID 19 vaccination programme to reduce the spread, public-private partnerships to enable creation of investment opportunities across all economic sectors, setting up of a centralized collateral registry to improve efficiency and the need to reduce over-regulation, which increases cost of doing business through compliance costs.

Non-bank private firms on the other hand suggested that reduction of excess taxation, provision of affordable credit, provision of incentives to the tourism industry, tax relief for businesses greatly affected by the COVID-19 pandemic, lifting of COVID restrictions and provision of a financial stimulus package especially for SMEs would contribute a great deal in improving the business environment.

In addition, respondents pointed out that elimination of the many licences required by county governments, timely release of funds to county governments to support clearance of pending bills and payment to SMEs, reduction in electricity and fuel costs, timely refunds of VAT & corporate tax by KRA and improvement of efficiency at the Mombasa port would improve the business environment.



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