Central Bank of Kenya

Market Perceptions Survey

March 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 March 2023 MPC Market Perceptions Survey was conducted in the first two weeks of the month. The Survey aimed at obtaining perceptions by respondents on selected economic indicators for the previous two months (January and February 2023), and expectations for the next two months (March and April 2023), the next one year (March 2023 – February 2024), the next two years (March 2023 – February 2025), and the next five years (March 2023 – February 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, 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 355 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 March 2023 Survey was 54 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 March 2023 Market Perceptions Survey included:

1. Overall inflation expected to remain elevated in the next 2 months due to high food prices occasioned by the prolonged dry weather, expensive imports and sticky local energy prices.

2. Moderate to strong Economic activity expected in March and April compared to January and February.
3. Economic growth expected to be resilient in 2023, but there are concerns about high cost of living and risk of reduced 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, but mainly for working capital arising from high cost of inputs.
6. Though still relatively strong, optimism in the country's economic prospects moderated to levels last seen 10 -12 months ago.
7. Forward hotel bookings have recovered to pre-Covid levels.

5. INFLATION EXPECTATIONS

In the Survey, the respondents were requested to give their expectations of overall inflation rates for the next 2 months (March and April 2023), the next 12 months (March 2023 – February 2024), the next 2 years (March 2023 – February 2025), and the next 5 years (March 2023 – February 2028) **(Tables 1, 2 & 3).** The respondents expected inflation to remain elevated in the next 2 and 12 months.

82 percent of the respondents expect upward pressure on inflation to come from high food prices due to prolonged dry weather conditions and below-average rainfall as forecasted by the weathermen, while 43 percent of the respondents expected pass-through effects of exchange rate depreciation, low dollar liquidity aggravating supply shocks and prolonged price pressures, and expensive imports, to exert upward pressure on inflation.

In addition, 39 percent of the respondents expected the high local energy prices to impact on transport costs, and the recent upward review of power tariffs to cause upward pressure on inflation.

Nevertheless, about 57 and 43 percent respondents respectively, expected some relief on food inflation from improved supply and distribution of food following the onset of the rains, and food imports, and from positive spill overs from lower global crude oil prices on the cost of local fuel.

Table 1: Inflation expectations for March and April 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
February 2023 Actual inflation		9.2	9.2	9.2	9.2	9.2	9.2
March '23	Mar-Apr 2023	9.1	9.4	9.2	9.2	9.2	8.9

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

In the medium term, respondents expect inflation to remain within the target levels supported by eased geopolitical tensions, improved supply and supply chains, good weather and application of sound 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	6.3	6.0	6.3	6.3	6.2	6.4
Next 5 years	5.6	5.2	5.3	5.5	5.4	5.5

6. ECONOMIC ACTIVITY

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

60 percent and 30 percent of the respondents, respectively, expected economic activity to be supported by the onset of long rains, that will boost agricultural activity and lower the cost of food, thus improve purchasing power of consumers. In addition, respondents expect increased private sector credit growth on the back of improved private sector performance, and resilient services supported by steady household demand to support economic activity in March and April.

However, 92 percent of the respondents cited the high cost of living, while 44 percent of the respondents cited weak domestic currency, expensive imports and shortage of dollars as risks to economic activity in March and April.

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

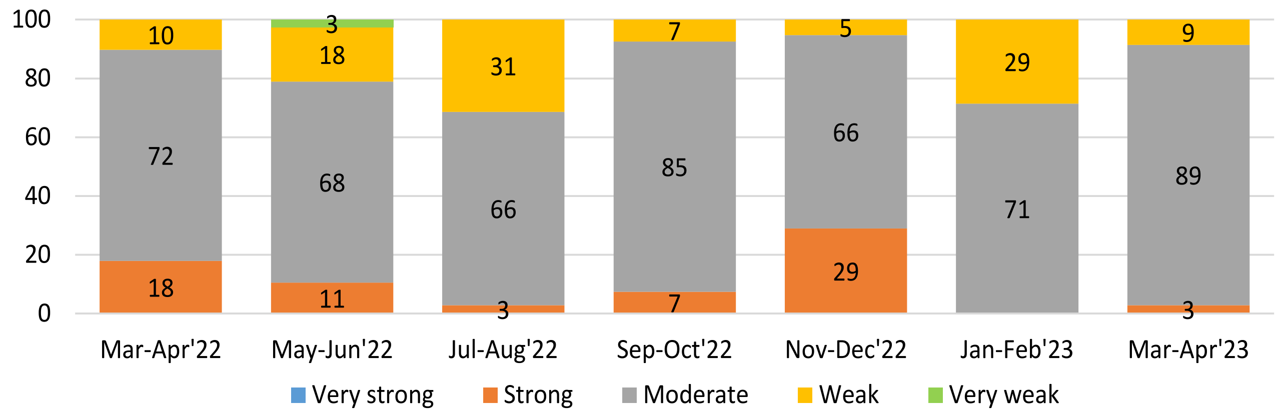
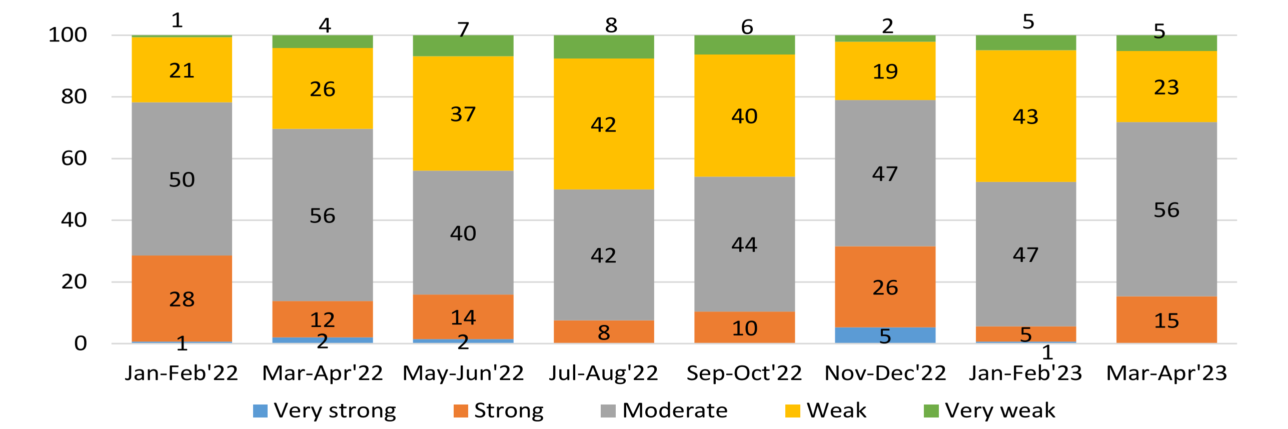


Chart 2: Expected economic activity by non-bank private sector (percent of respondents)



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 they expected to grow credit to private sector in Q1 2023 relative to Q1 2022, and by end December 2023 compared with end December 2022. Respondents expected sustained increase in private sector credit growth in 2023 relative to 2022 **(Charts 3 & 4).**

69 percent respondents expected private sector credit growth to be supported by high demand for credit due to increase in working capital requirements as most businesses try to stay afloat and cushion themselves following slowdown in collections and payments by customers, increase in prices of raw materials due to the impact of a weakening Shilling and growing demand for credit by MSMEs

Additionally, 29 percent respondents expected credit growth to be supported by expectations of an economic upturn.

However, risks to private sector credit growth included a slowdown in borrowing appetite due to risk factors such as the prevailing drought and weakened consumer spending amid high inflation, cited by 60 percent respondents, and increased pending bills at both national and county government levels, cited by 40 percent respondents.

Chart 3: Expectations on private sector credit growth for Q1, 2023 (percent)

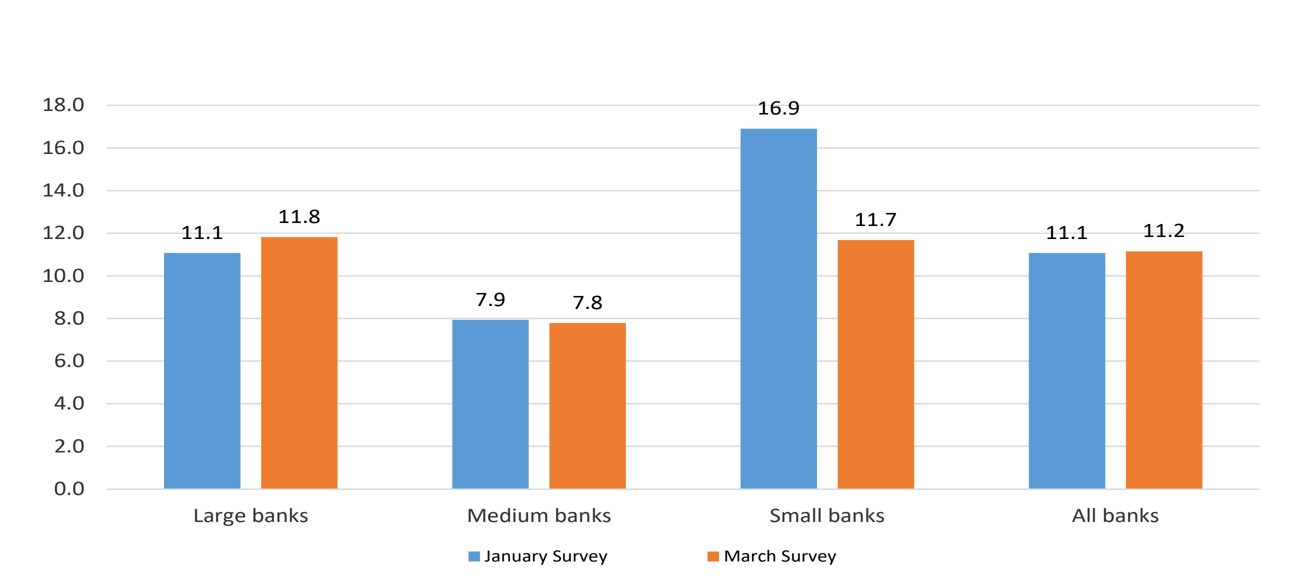
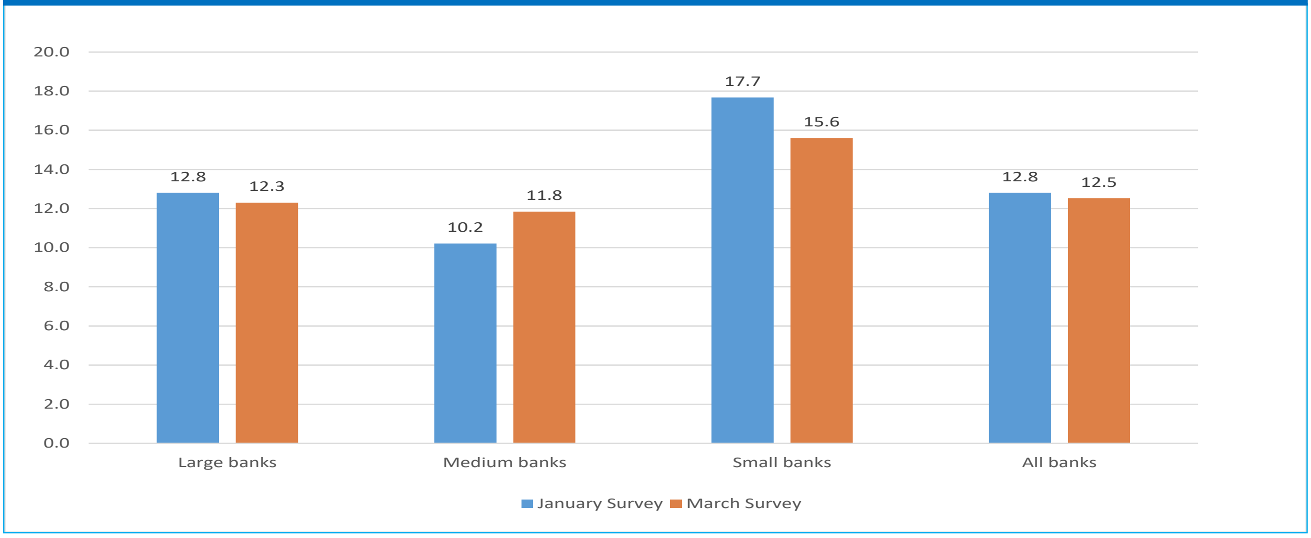


Chart 4: Expectations on private sector credit growth by end December 2023 (percent)



7.2. Expected demand for credit by banks

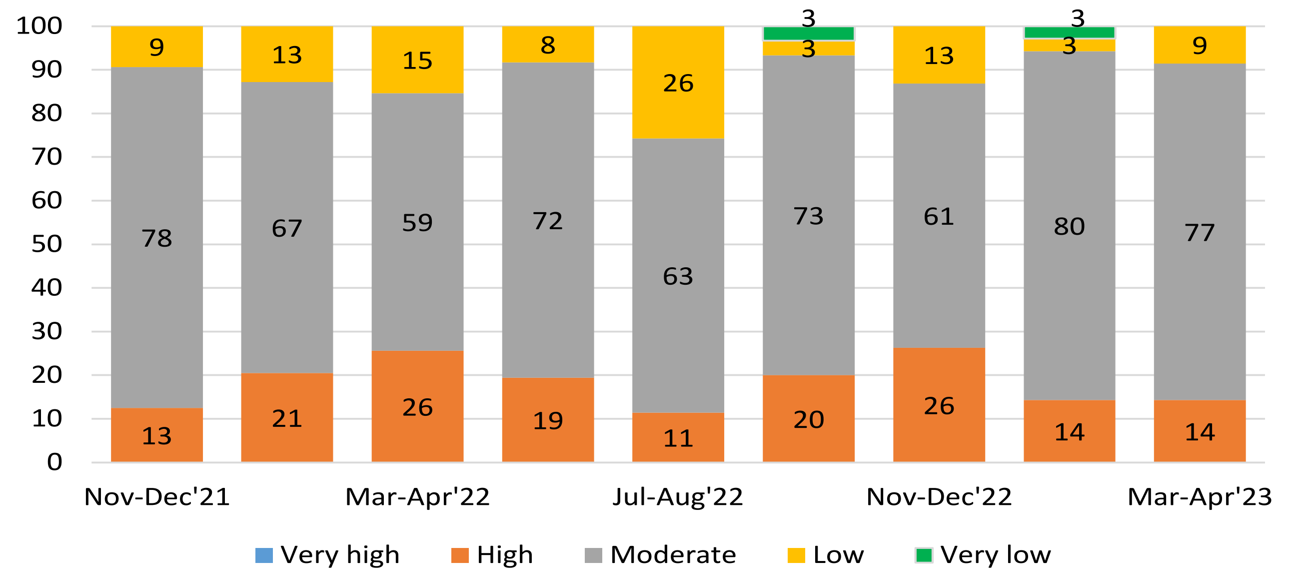
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e. January and February 2023), and their expectations for March and April 2023 **(Chart 5).**

84 percent of bank respondents expected demand for credit to remain high to moderate due to increased working capital requirements, slow growth of incomes, weaker shilling, and shortage of US dollars for imports payments and for personal consumption.

Additionally, respondents expected demand for credit to be boosted by expected increased activity in agriculture with the onset of the long rains.

However, 76 percent of the respondents expected the elevated price pressures plus the effects of high interest rates and inflation to dampen activity and reduce demand.

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



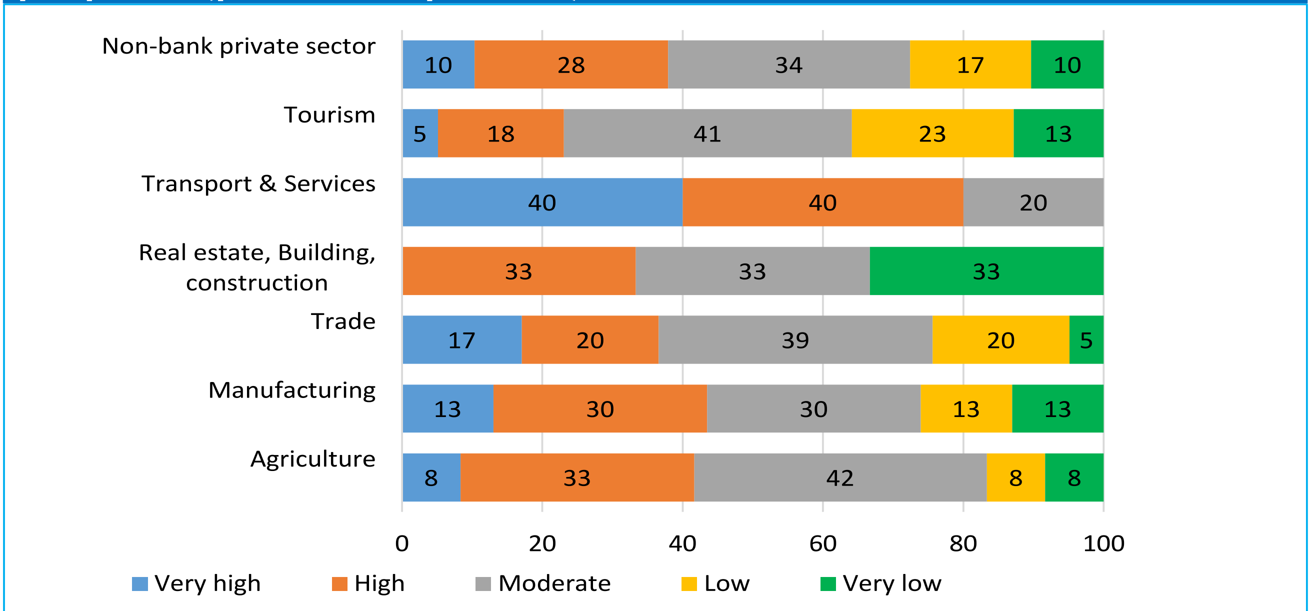
7.3. Expected demand for credit by non-bank private sector

The Survey requested non-bank private firms for an assessment of their need for financing for the next 12 months (March 2023 – February 2024), compared to the last 12 months (March 2022 – February 2023) **(Chart 6).**

Respondents indicated that their demand for credit was moderate to high, largely for working capital financing requirements, business expansions, to cater for high cost of inputs due to high inflation, and to cushion themselves due to slow down in collections/ payments by customers.

However, the respondents cited high inflation and interest rates, and the weakening of the shilling, as factors expected to impact negatively on trade activities, and cause importers to adopt a wait and see attitude, as risks to credit appetite.

Chart 6: Expectations on Demand for credit from non-bank private firms' perspective (percent of respondents)



8. EXPECTED ECONOMIC GROWTH

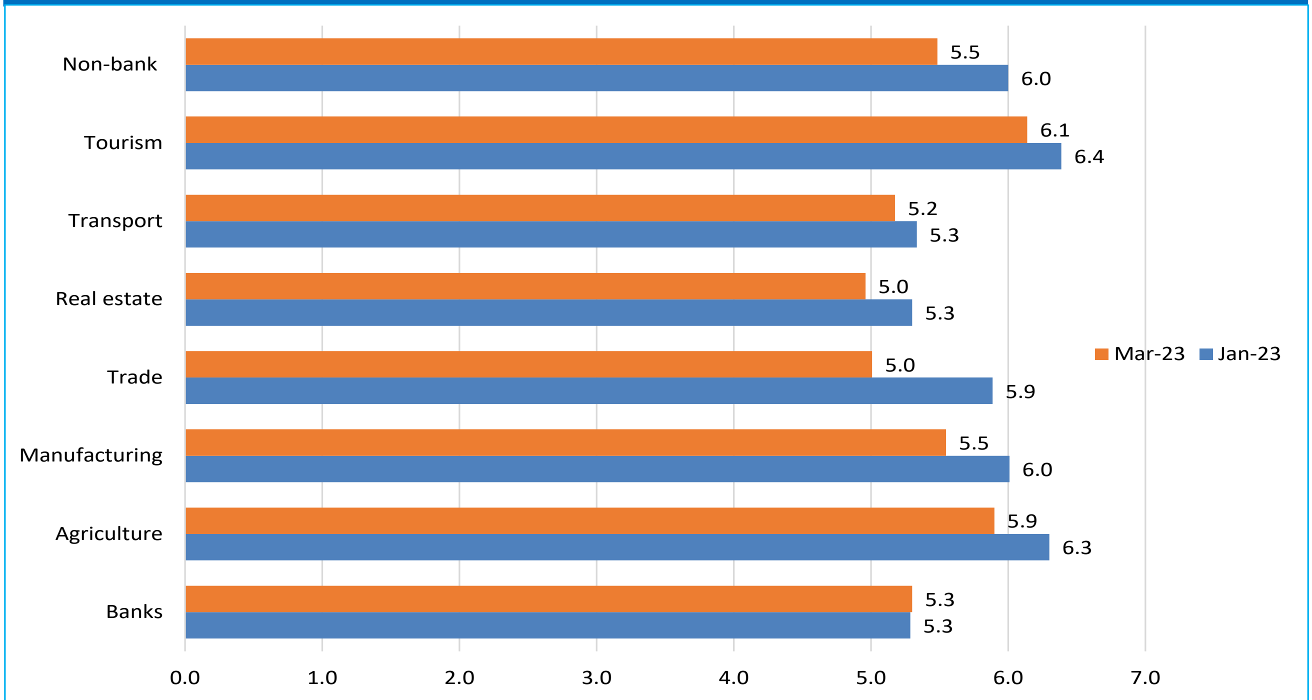
The Survey requested participants to indicate their estimated economic growth rates for the country in 2023, in the next 2 years (2024), and in the next 5 years (2028).

Respondents expected economic growth to remain resilient in 2023, but that there were concerns about risks of high cost of living and reduced agricultural production **(Charts 7 & 8).**

Respondents expected economic growth in 2023 to be supported by possible favourable weather patterns, which could lead to recovery of the agricultural sector, and a resilient and diversified private sector.

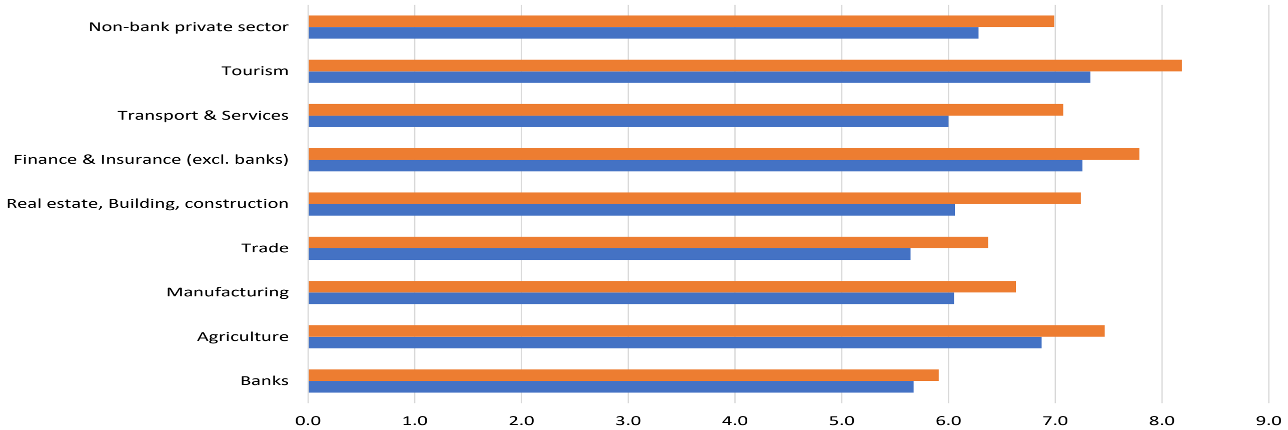
However, risks to growth expectations in 2023 included high cost of living, worsened by weak agricultural production and possible less than normal rainfall for the year, cited by 73 percent of the respondents, and the local currency depreciation, that may arise from pressure from US FED rate hikes, resulting in expensive imports, further affecting input costs for many products, cited by 31 percent respondents.

Chart 7: Expectations on economic growth for 2023 (percent)



The medium-term outlook for economic growth was anchored on optimism, given the inherent strengths of the economy, its diversified nature, enterprising people, and innovative culture.

Chart 8: Expectations on economic growth for the next 2 years and the next 5 years (percent)



	Banks	Agriculture	Manufacturing	Trade	Real estate, Building, construction	Finance & Insurance (excl. banks)	Transport & Services	Tourism	Non-bank private sector
Next 5 yrs	5.9	7.5	6.6	6.4	7.2	7.8	7.1	8.2	7.0
Next 2 yrs	5.7	6.9	6.1	5.6	6.1	7.3	6.0	7.3	6.3

9. OPTIMISM ON THE ECONOMIC PROSPECTS

9.1. Hotel forward bookings

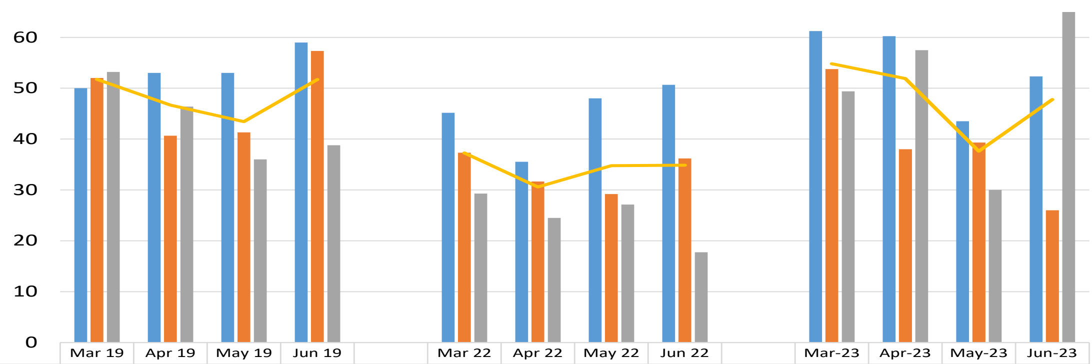
The Survey requested hotel respondents for forward bookings received so far for March, April, May, and June. Results showed that forward bookings had reached the pre-Covid levels (Charts 9).

The respondents indicated that forward bookings were supported by both foreign and domestic markets, but that most bookings were by foreigners given the high season, that is expected to go till end March.

However, the respondents indicated that the international leisure travel market especially from Europe had not yet fully recovered, hence fewer long-term booking in May and June.

Additionally, bookings for conferences and workshops are expected to peak in June as the financial year comes to a close.

Chart 9: Hotel forward bookings (March – June 2023)



	Mar 19	Apr 19	May 19	Jun 19	Mar 22	Apr 22	May 22	Jun 22	Mar-23	Apr-23	May-23	Jun-23
Mombasa	50	53	53	59	45	36	48	51	61	60	44	52
Nairobi	52	41	41	57	37	32	29	36	54	38	39	26
rest	53	46	36	39	29	25	27	18	49	58	30	65
average	52	47	43	52	37	31	35	35	55	52	38	48

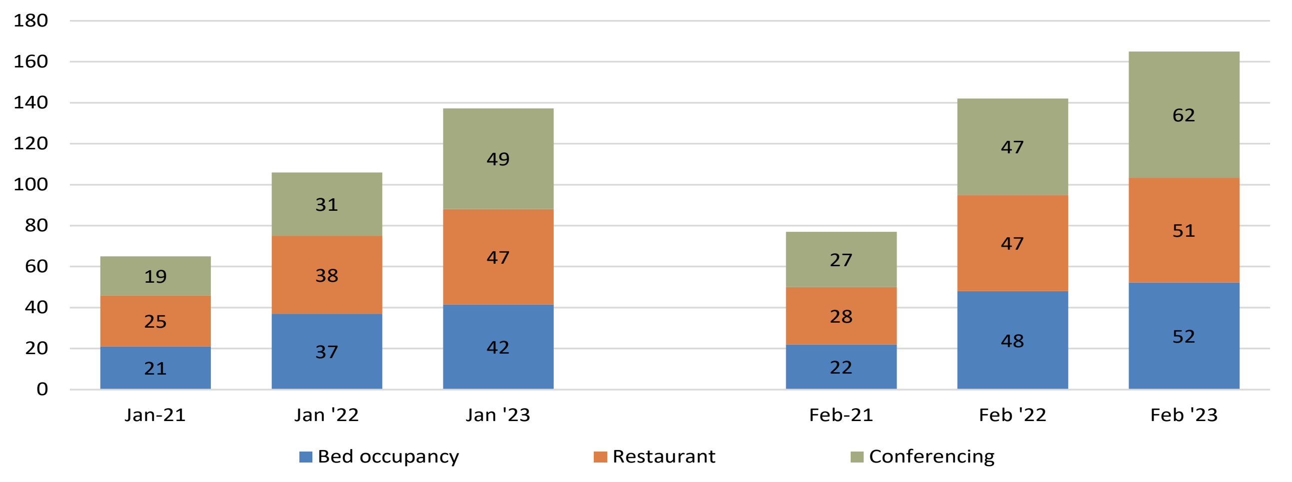
Mombasa Nairobi rest average

9.2. Hotel Operations

The Survey requested hotel respondents for levels of hotel operations including bed occupancy, restaurant services and conferencing services. Results showed improved uptake of the above services in 2023 compared to a similar period in 2022 **(Chart 10).**

The respondents indicated that there was an influx of foreign visitors in February, which is part of the high season. In addition, there were increased conferences and workshops by international organizations and the local market especially by government departments, and a pickup in corporate business in February, after the extended holidays.

Chart 10: Uptake of hotel services in January and February for the last 3 years.



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. Compared with the January Survey, the results showed strong but weaker optimism in the country's economic prospects by banks and nonbank private sector firms **(Charts 11 & 12).**

49 percent of the respondents attributed their optimism about the country's economic prospects to strategies put in place by the government to improve agricultural production by subsidizing cost of fertilizers, and the hustler fund expected to support businesses and enhance economic activities.

In addition, 43 percent respondents attributed their optimism to the resilience of Kenya's private sector, supported by growth in industry and service sectors including tourism, which are expected to compensate for the poor weather effects on agriculture.

However, 60 percent, 50 percent and 45 percent of the respondents, respectively cited high cost of living, unfavourable weather conditions, and weakening of local currency as factors weighing down their optimism.

Chart 11: Optimism by Banks on Economic Prospects (percent of respondents)

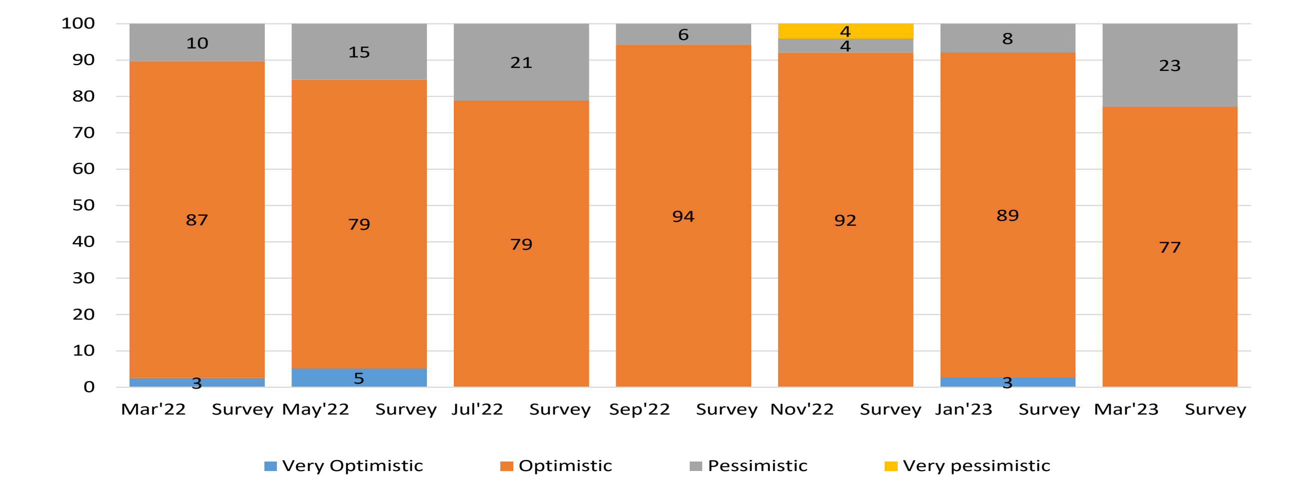
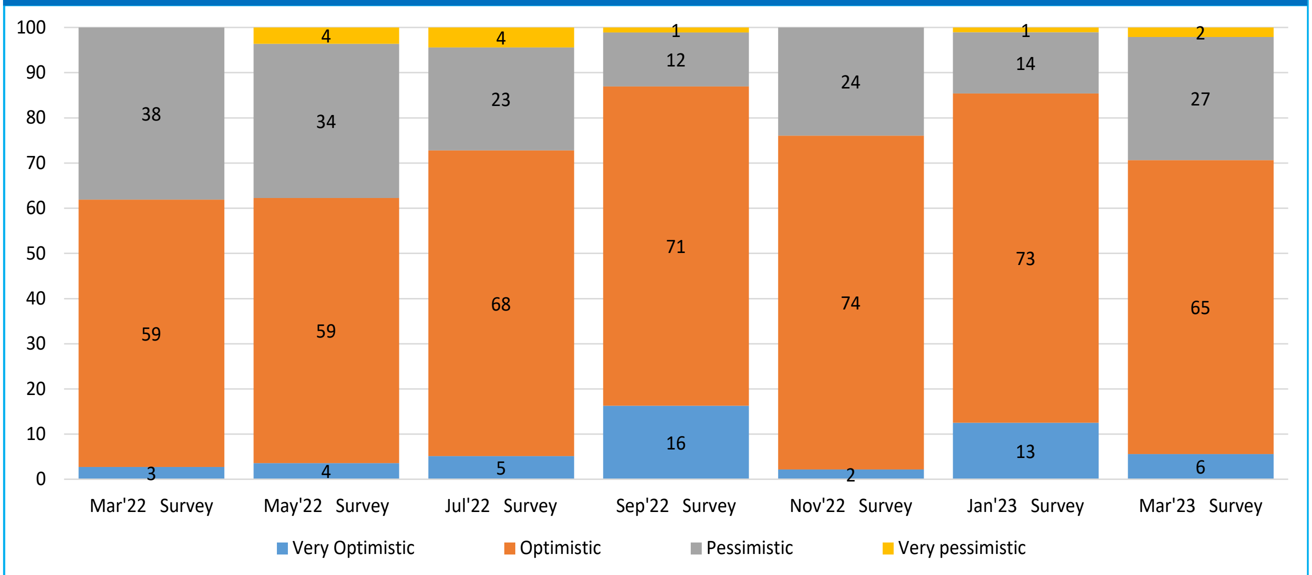


Chart 12: Optimism by Non-bank private firms on Economic Prospects (percent of respondents)



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 that on average, new hires are expected to improve in 2023 relative to 2022 **(Chart 13).**

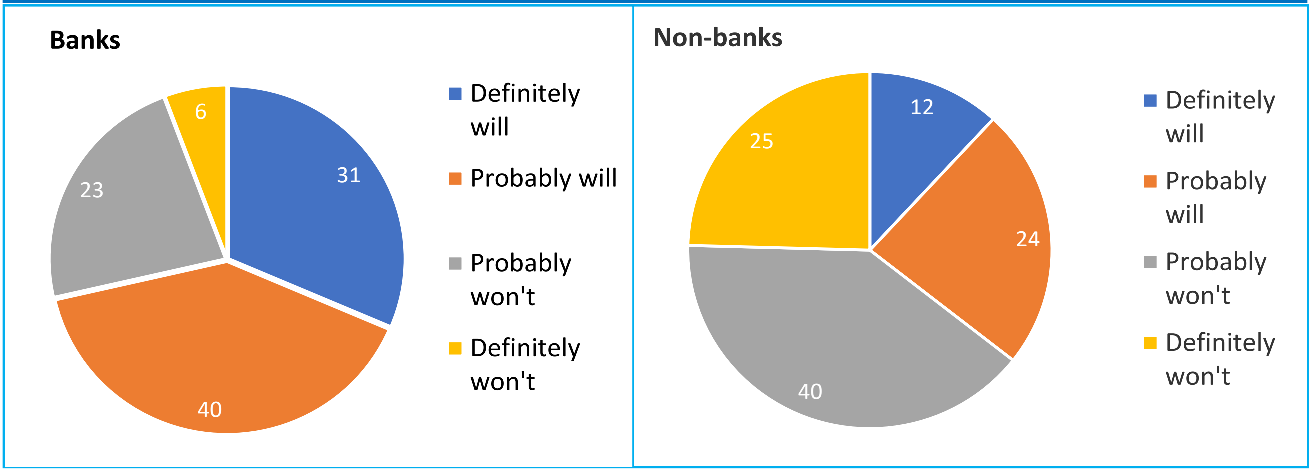
Bank respondents expected employment to be supported by planned business growth, expansions and business remodelling and growth in business volumes (71 percent respondents).

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 (36 percent respondents).

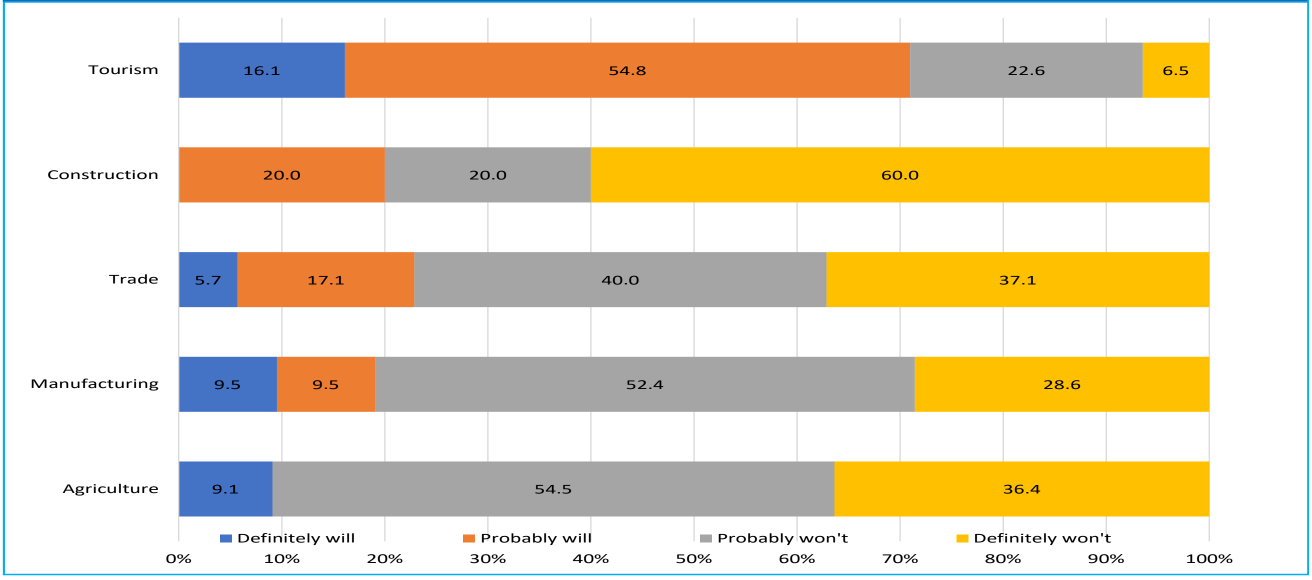
However, some firms expected low production volumes, occasioned by higher input costs, expensive imports, and low demand.

Chart 13: Expectations on employment levels for 2023 relative to 2022 (percent of respondents)



The lower new hires expected by non-bank private firms were attributed to shortage of critical inputs, weather patterns and depressed demand, cited by the agricultural sector respondents, and depressed demand for some products, low purchasing power, scarcity of raw materials and high input costs, cited by manufacturing sector respondents **(Chart 14).**

Chart 14: Non-bank expectations of new hires by sector (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 March and April 2023.

Respondents expected pressure on the shilling from sustained demand for imports and declining inflows from the country's agricultural exports, enhanced dollar demand, constrained foreign reserve position to limit support for the shilling, and persistent US dollar strength due to its strong yield and safety appeal.

However, respondents expected support for the Shilling to come from diaspora remittances and increased exports.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Banks suggested that enhanced policies to support credit growth in the wake of the tough operating environment in most sectors, 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 SME's would improve business environment for the sector.

Non-bank private firms on the other hand suggested the review taxation policies, provision of low interest credit facilities by banks, lower money transfer charges, give incentives to industries such as tourism, and introduce 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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