

Central Bank of Kenya

Market Perceptions Survey

May 2024



TABLE OF CONTENTS

- 1. BACKGROUND TO THE MARKET PERCEPTIONS SURVEYS.....1
- 2. INTRODUCTION.....1
- 3. SURVEY METHODOLOGY1
- 4. HIGHLIGHTS OF THE SURVEY.....1
- 5. INFLATION EXPECTATIONS.....2
- 6. ECONOMIC ACTIVITY.....3
- 7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS4
- 8. EXPECTED ECONOMIC GROWTH.....6
- 9. EMPLOYMENT EXPECTATIONS.....7
- 10. OPTIMISM ON THE ECONOMIC PROSPECTS.....8
- 11. EXCHANGE RATE EXPECTATIONS.....10
- 12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED.....10

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 May 2024 MPC Market Perceptions Survey was conducted in the first three weeks of the month. The Survey aimed at getting perceptions of respondents on selected economic indicators for the previous three months (March, April, and May 2024), expectations for the next three months (June, July, and August 2024), the next one year (June 2024 – May 2025), the next two years (June 2024 – May 2026), and the next five years (June 2024 – May 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 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 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 May 2024 Survey was 74 percent of the sampled institutions. The respondents comprised 37 commercial banks, 11 micro-finance banks, and 215 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 2024 Market Perceptions Survey included:

1. Respondents expect overall inflation to remain relatively stable around 5 percent over the next three months, and to be anchored around the 5 percent target in the medium term.
2. Respondents expect continued gradual increase in economic activity in June, July and August, supported by increased agricultural activity and a stable macroeconomic environment, but were concerned about the impact of the proposed fiscal policy in the finance Bill 2024.

3. Respondents expect economic growth to remain strong in 2024 compared with 2023, largely anchored on increased agricultural production and a resilient services sector. However, concerns on high cost of living due to fiscal measures and borrowing remain.
4. The survey shows moderation in hiring expectations by banks and non-bank private firms for 2024 compared with 2023.
5. Bank respondents expect moderation in private sector credit growth in 2024 compared with 2023 largely due to high lending rates.
6. The survey revealed sustained optimism by respondents about Kenya's economic prospects in the next 12 months.
7. The survey revealed relatively good forward hotel bookings for the period May – August 2024.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to indicate their expectations of overall inflation for the next three months (May, June, and July 2024), the next 12 months (May 2024 – April 2025), the next 2 years (May

2024 – April 2026), and the next 5 years (May 2024 – April 2029). The results reveal that respondents expected inflation to remain stable around 5 percent in May, June and July, supported by lower food and fuel prices, and a stronger Shilling (**Table 1**).

Respondents expected stability in inflation to be supported by gains from a stronger Shilling through reduction of costs of raw materials and other goods which would lead to lower prices of goods and services in the domestic market and, the absence of speculative buying of the USD which would lower demand for foreign currency, cited by 83 percent respondents. Further, respondents expected a decline in food inflation following the heavy rains despite the disruptions and flooding that affected some food crops like onions and tomatoes, and lower electricity costs and pump prices to ease fuel inflation, cited by 72 percent and 44 percent respondents, respectively.

However, respondents were concerned about possible rise in food inflation owing to the disruption caused by the recent heavy rains, and the impact on supply chains, and the expected impact of proposed fiscal policy measures in the Finance Bill 2024.

Table 1: Inflation expectations for May to July 2024 (percent)

Survey month	Inflation expectations			Actual inflation	Deviations	
		Banks	Non-banks		Banks	Nonbanks
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	6.31	0.32	0.46
Mar-24	Mar-24	6.10	6.07	5.70	0.40	0.37
	Apr-24	6.05	5.95	5.00	1.05	0.95
May-24	May-24	4.97	5.09	5.14	-0.17	-0.05
	Jun-24	4.96	5.19			
	Jul-24	5.03	5.34			

Over the medium term, respondents expected inflation to remain anchored close to the 5 percent target on account of expected stability in food prices, lower fuel prices, and a stable Kenya Shilling (**Chart 1**).

About 62 percent respondents expected improvement in food production due to the favourable weather outlook, and government food security agenda to support low inflation in the medium term.

Additionally, 43 percent respondents expected projected lower international fuel prices as US ramps up production and EU shifts from over dependence on Russia to Norway and African countries to ensure fuel stability while 38 percent respondents expected a stable Shilling to support low inflation in the medium term.

Nevertheless, 60 percent and 50 percent respondents, respectively, indicated that vulnerability to commodity price shocks, particularly global oil prices, and impact of floods on agriculture and the effect of unpredictable climate on availability and cost of food remained as risks to inflation in the medium term.

6. ECONOMIC ACTIVITY

The May 2024 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in March, April and May 2024, and their expectations for June, July and August 2024. The Survey results reveal that respondents expected a continued gradual increase in economic activity in the next three months (**Charts 2 & 3**).

Respondents expected moderate to strong activity in the next three months supported by the strengthening Shilling and improved USD supply, the benefits of which are expected to be passed by importers to consumers and to support capital investments as cited by 86 percent respondents.

In addition, 57 percent and 46 percent respondents respectively, expected further support to economic activity to come from improved food production and activities in the agricultural sector as the flooding decreases, and from lower inflation expected to allow consumers to have more disposable incomes to enable increased demand, which will boost economic activity.

However, risks to economic activity cited by respondents included the proposed fiscal policy measures, expected to directly or indirectly be passed on to consumers hence contract household consumption demand, private sector investment and employment thus slowing economic activities, cited by 60 percent respondents. In addition, the high cost of living in most households, which has led to muted spending and activity levels as a result of reduced disposable incomes was cited by 55 percent respondents, and the high cost of borrowing due to a rise in lending rates which has led to increased loan repayment costs, further constraining disposable incomes for consumption and investments, while causing a rise in non-performing loans was cited by 50 percent respondents.

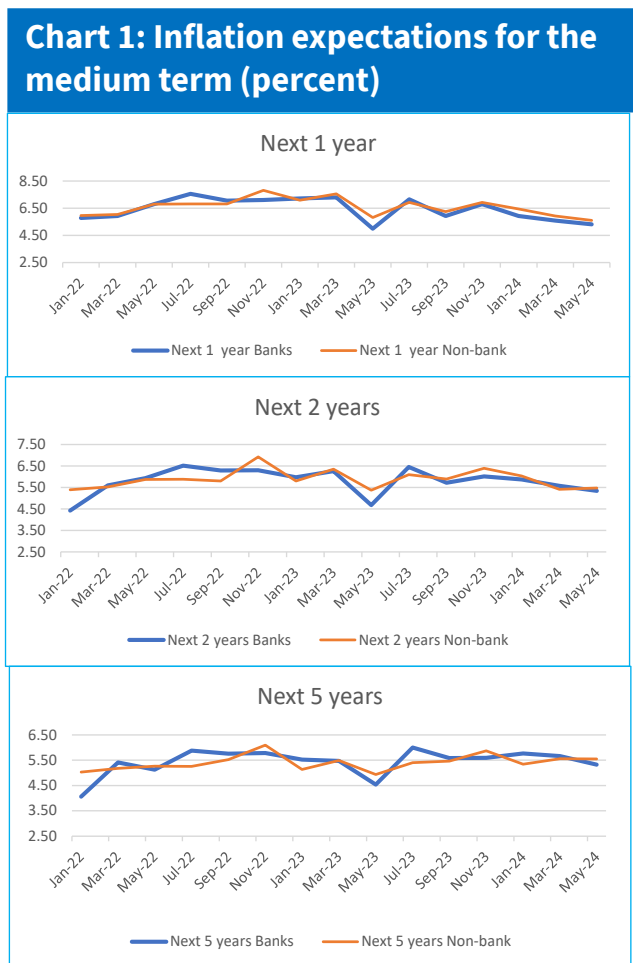


Chart 2: Expected economic activity by banks (percent of respondents)

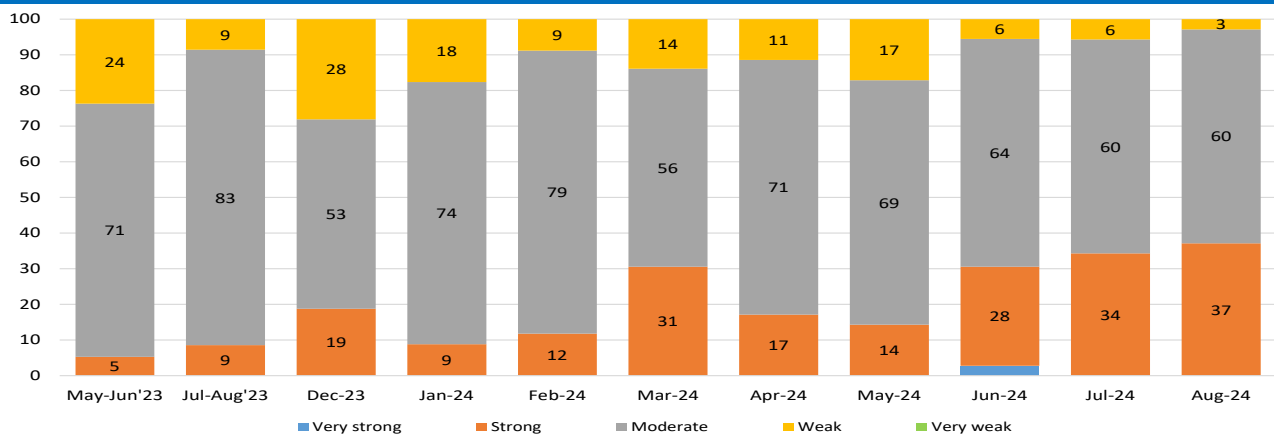
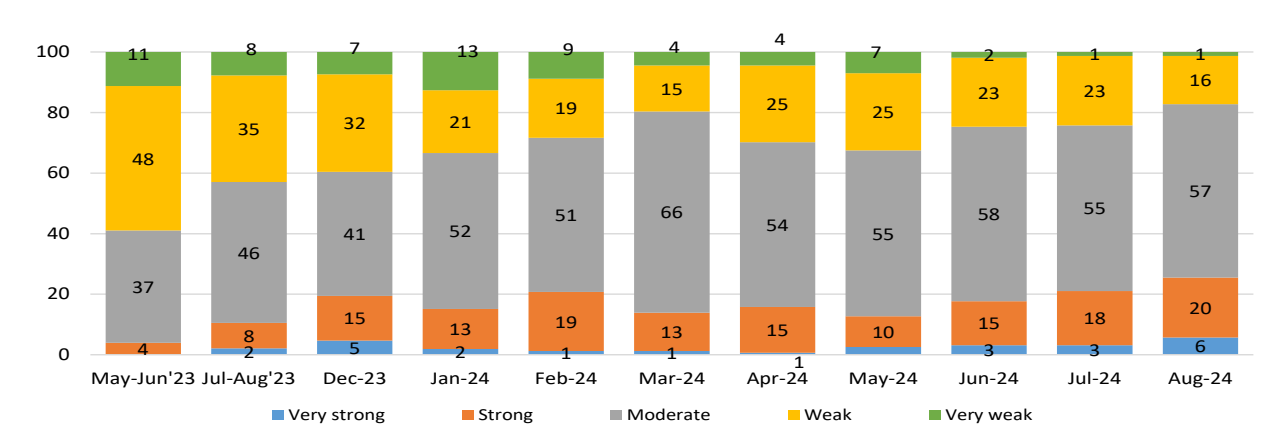


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit by end December 2024

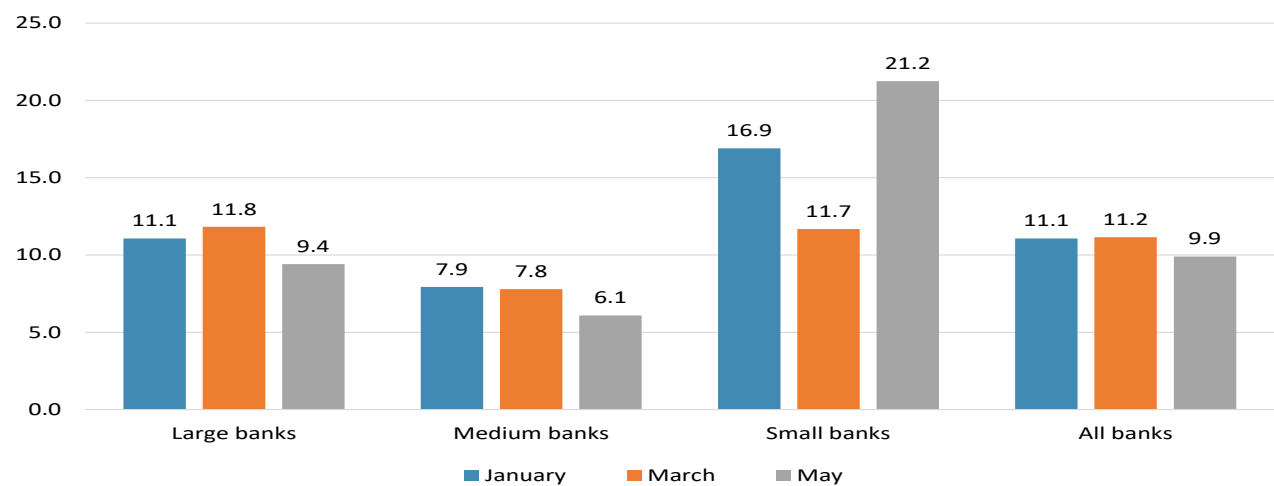
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector by end December 2024 compared with end December 2023. The results showed that respondents expected lower private sector credit growth in 2024 compared with 2023 largely due to high lending rates **(Chart 4)**.

About 83 percent respondents expected private sector credit growth to be largely tempered by high lending rates at a time when business and employment rates were low, characterized by reduction in new projects that need funding as clients

watch the market developments. This is in addition to observed reduced borrowing appetite, limited investment opportunities, rising non-performing loans, and strict loan qualification criteria.

Nevertheless, 81 percent respondents expected support to private sector credit growth from increased demand for working capital, especially short-term facilities, as businesses from key sectors such as the oil marketers, cement, steel and those supplying to the Government seek working capital to recover from a slow business environment and the impact of exchange rate volatility, and to stay afloat as business conditions improve, and as input prices decline.

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



7.2. Expected demand for credit by banks

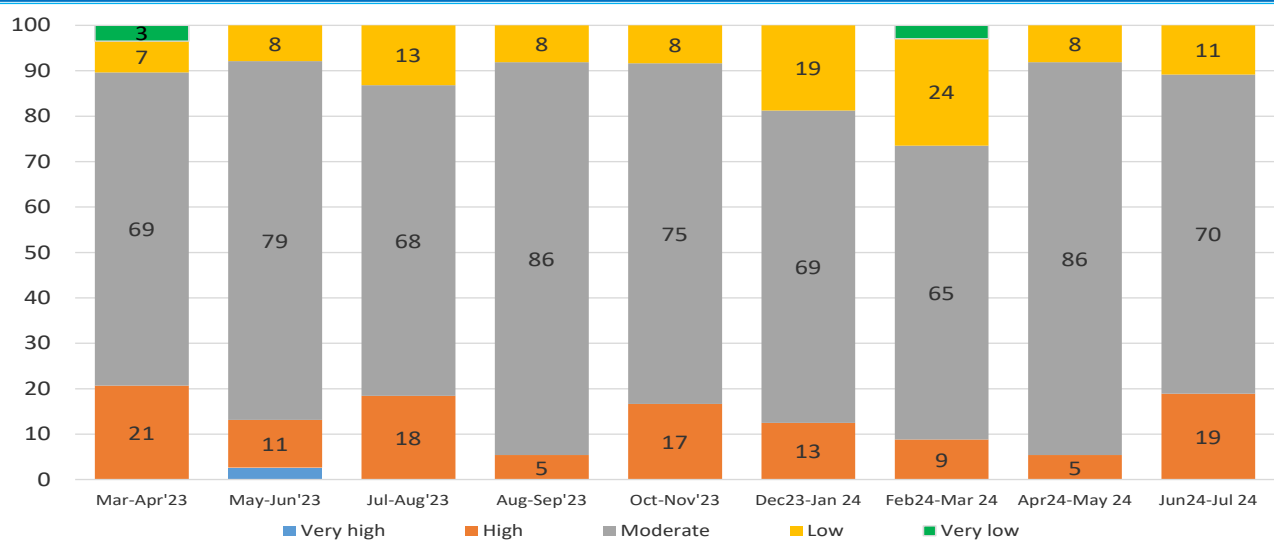
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the two months before the MPC meeting (i.e., April and May 2024), and their expectations for June and July 2024. The results showed that respondents expected moderate to high demand for credit in June and July supported largely by the need for working capital **(Chart 5)**.

Bank respondents expected demand for credit to be driven by moderate increase in economic

activities post the floods and the exchange rate volatility experienced earlier, increased need to finance working capital, stable inflation, growth in the agricultural sector, as cited by 71 percent respondents.

However, 89 percent and 44 percent respondents, respectively, expected the elevated lending rates to discourage loan uptake and the proposed fiscal measures to cause businesses and households to take a cautious approach to investments leading to a dampening of credit appetite in the next two months.

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



8. EXPECTED ECONOMIC GROWTH

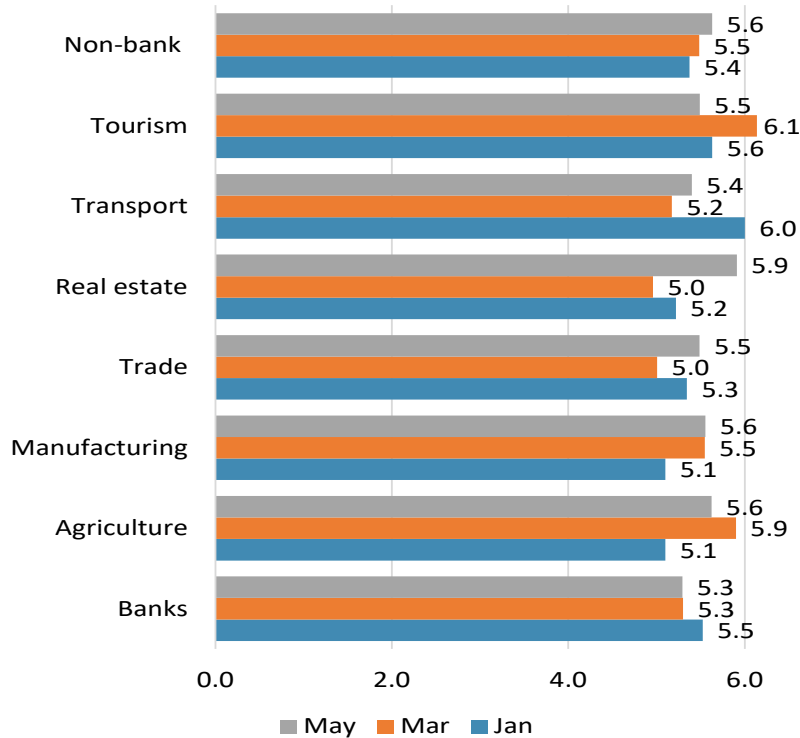
The Survey requested participants to indicate their projected economic growth rates for the country in 2024. The survey results revealed that respondents expected stronger growth in 2024 compared to 2023, largely supported by strong performance of the agricultural and services sectors (**Chart 6**).

Respondents expected 2024 economic growth to be driven by the positive performance of the agricultural sector as a result of favourable weather, improved agricultural techniques, and initiatives taken by the government to ensure food sustainability, cited by 67 percent respondents, and a strong and resilient services sector, expected to benefit from lower inflation, improving purchasing power and lead to increased demand for services and manufactured

goods, construction, etc., despite high interest rates, pending bills, higher taxation, climate and global geopolitical risks, cited by 61 percent respondents.

However, risks to economic growth as cited by respondents included the high taxation, existing and proposed in the Finance Bill 2024, and high levies by county governments, which are expected to contract disposable incomes and household consumption demand, private sector investment and employment, and lead to high cost of living, and high cost of doing business, cited by 90 percent respondents, and the high cost of borrowing likely to increase loan repayment costs further constraining disposable incomes for consumption and investments by households hence dampening growth, cited by 40 percent respondents.

Chart 6: Expectations on economic growth for 2024 (percent)



9. EMPLOYMENT EXPECTATIONS

Respondents were asked about their expectations on the number of employees they expected to retain in 2024 compared with 2023. The survey showed lower hiring expectations for 2024 by bank and non-bank private firms **(Chart 7)**.

Non-bank respondents on the other hand expressed the need to cut costs and improve efficiency as reasons for not hiring in 2024. Some, however, expressed concern about industry decline as a result of challenging business environment.

Banks expected to hire in 2024 largely to grow business and expand, to attract new talent, and to replace exiting staff **(Charts 8)**.

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

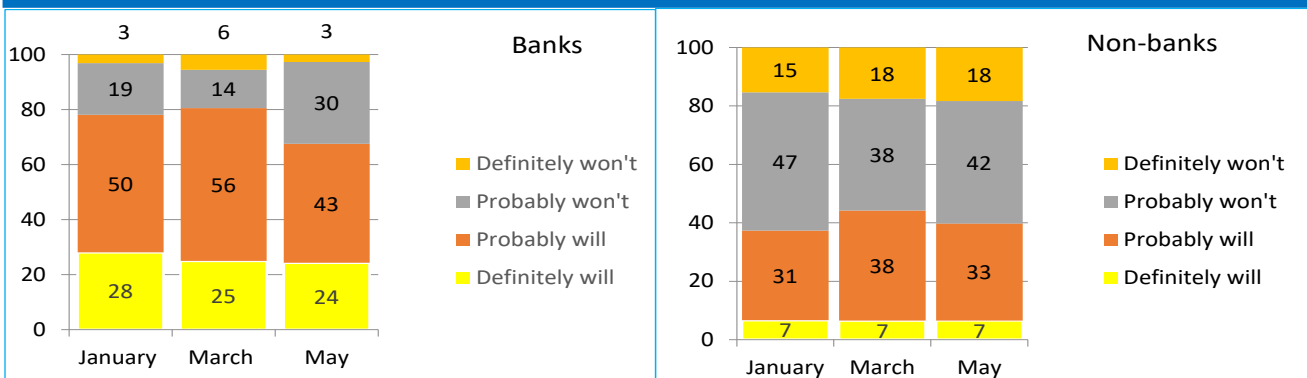
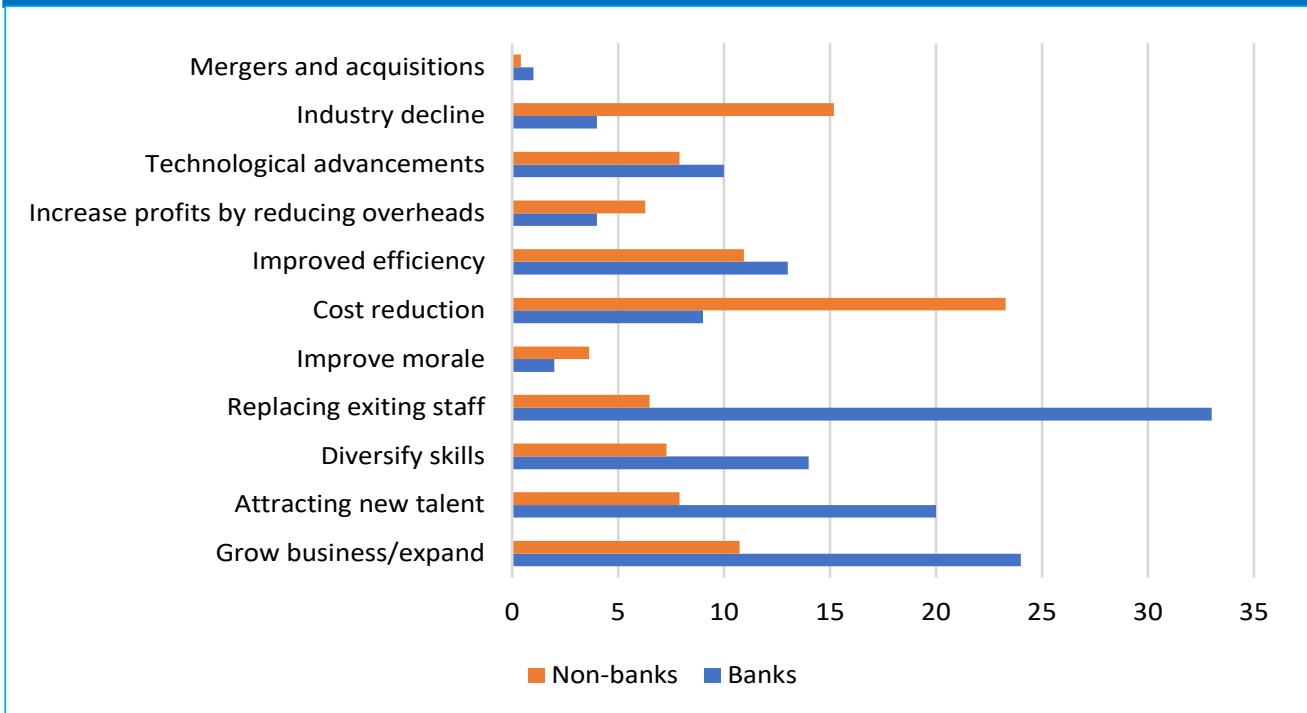


Chart 8: Reasons for employment expectations for 2024 (percent respondent)



10. OPTIMISM ON THE ECONOMIC PROSPECTS

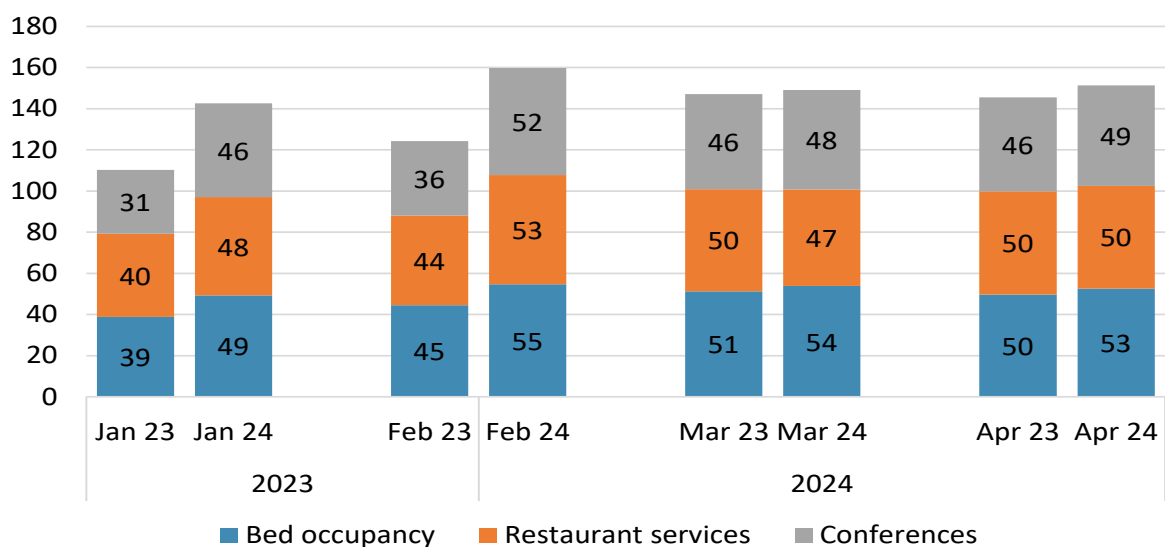
10.1. Hotel activity January – April 2024

The Survey requested hotel respondents to indicate the levels of activity, including bed occupancy, restaurant services and conference services, experienced in the first four months of the year (January -April 2024) **(Chart 9)**.

The survey showed better performance of the above services in 2024 relative to 2023, supported by increased economic activity.

Nevertheless, respondents indicated that low business levels and reduced disposable incomes, high cost of living, heavy rains and subsequent flood alerts which affected travel, austerity measures by companies and government had affected activity levels in the last four months.

Chart 9: Hotel activities (January 2024 – April 2024)



10.2. Hotel forward bookings

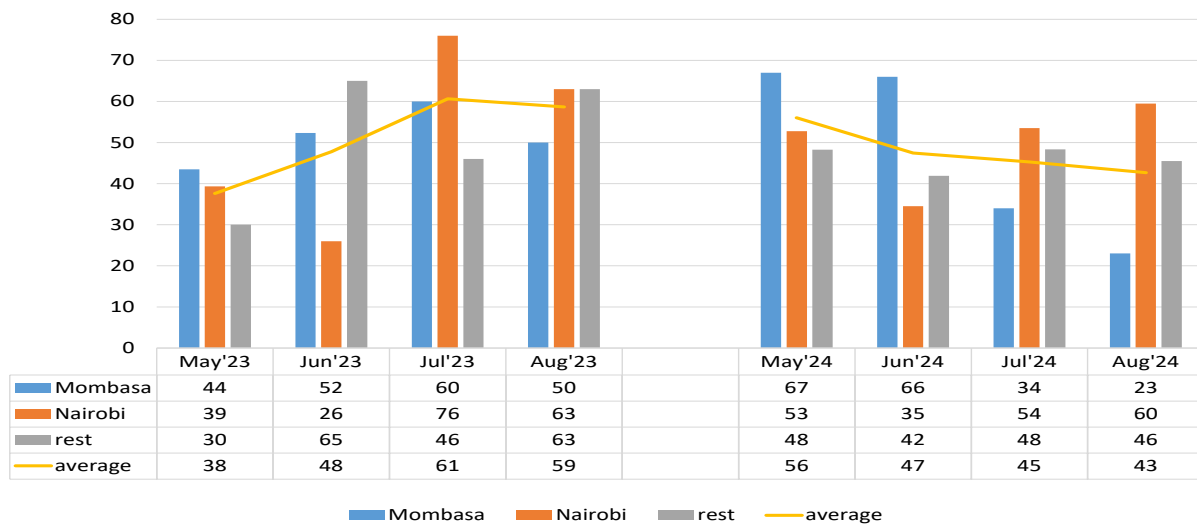
The Survey requested hotel respondents for forward bookings received so far for the period May to August 2024. The survey revealed relatively good average forward hotel bookings during the period **(Chart 10)**.

Respondents indicated that the industry was expected to pick up with increasing foreign guests and upcoming July – September peak season and that the overall booking is supported by largely

foreigners arriving for business, conferences such as the AfDB annual meeting, fertilizer conference, etc., and leisure.

However, respondents cited low local business arising from high cost of living and low purchasing power, austerity measures by government, foreign bookings being done close to the arrival dates, and the mushrooming of hotels and Airbnb's as reasons for the lower forward bookings.

Chart 10: Hotel forward bookings (May 2024 – August 2024)



10.3. 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. Overall, respondents expressed stronger optimism about Kenya’s economic prospects for the next 12 months **(Charts 11 & 12)**.

About 86 percent respondents cited expected continued strong performance of the agricultural sector due to favourable weather patterns. In addition, 71 percent and 65 percent respondents,

respectively, were optimistic about the stability of the Shilling and lower inflation in the country.

Risks to this optimism as cited by 54 percent respondents included the high effective taxation and additional proposed fiscal measures which are likely to cause a decline in aggregate demand and negatively impact businesses and households, and constrain growth in the medium term.

In addition, 36 percent respondents indicated that the high interest rates were increasing loan repayment costs and further constraining disposable incomes for consumption and investments by households.

Chart 11: Optimism in growth prospects by banks (% respondents)

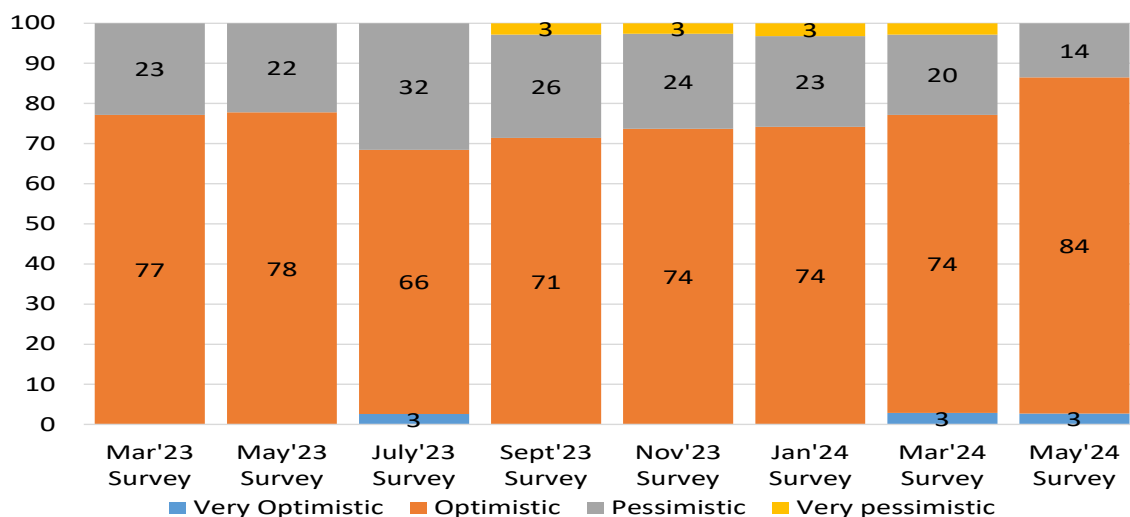
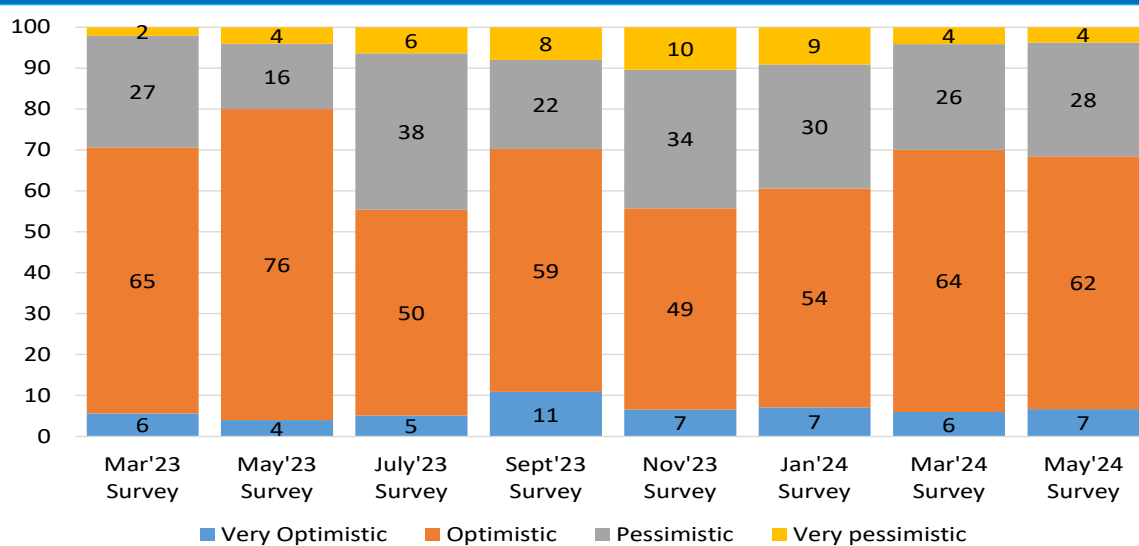


Chart 12 Optimism in growth prospects by non-bank private sector (% respondents)



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 June and July 2024.

Results showed that respondents expected the Shilling to remain stable or strengthen in the next two months supported by improved confidence following infrastructure bond and Eurobond issuance, strong diaspora remittances, improved liquidity arising from IMF and World Bank support, and attractive yields on local assets due to higher interest rates.

Nonetheless, respondents expected some moderate pressure from demand emanating from expected USD Eurobond repayment, and low portfolio inflows.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Respondents recommended that the provision of support and solutions to avail low-cost financing solutions due to the persistent high cost of credit and a healthy mix of fiscal policies to subsidize both consumption expenditure as well as business investments would improve the business environment.

In addition, respondents indicated that the business environment would benefit from proactive policy interventions, speedy conclusion of matters in court and moving the loan recovery cases from the lands court to the commercial court, a predictable and stable taxation policy, improved ease of doing business and prompt payment of pending bills by county and national government would go a long way in improving the business environment.

Furthermore, respondents suggested that private sector partnerships would enable creation of investment opportunities across all economic sectors, and that less government involvement in business e.g. housing and banking and limiting itself to governance and addressing governance issues.



Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi | Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000