Central Bank of Kenya

Market Perceptions Survey

November 2024

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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 November 2024 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 (August, September and October 2024), expectations for the next three months (November, December 2024 and January 2025), the next one year (November 2024 – October 2025), the next two years (November 2024 – October 2026), and the next five years (November 2024 – October 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 numerous 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 November 2024 Survey was 75 percent of the sampled institutions. The respondents comprised 36 commercial banks, 13 micro-finance banks, and 217 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 November 2024 Market Perceptions Survey included:

1. Respondents expect overall inflation to remain low and stable in the next three months, and to be anchored around the 5 percent target in the medium term on account of lower food and energy prices as well as a stable Shilling.
2. Respondents expect increased economic activity in December 2024, January and February 2025, supported by the end of year

festivities, low inflation and strong agricultural sector performance.

3. Bank respondents expect private sector credit growth to pick up in 2025 as lending rates decline in line with the reduction in the Central Bank Rate (CBR).
4. Demand for credit by the non-bank players, largely for working capital needs is expected to increase over the next 12 months
5. Respondents have revised down their economic growth expectations for 2024 mainly due to subdued consumer demand and high cost of doing business. However, agricultural production, resilient service sector and a stable macroeconomic environment will support growth.
6. The survey showed mixed hiring expectations by banks and non-bank private firms for 2024 compared with 2023.
7. The survey revealed sustained optimism by bank respondents about Kenya's economic prospects in the next 12 months.

5. INFLATION EXPECTATIONS

In the Survey, respondents were requested to give their expectations of overall inflation rates for the next three months (November, December 2024, January 2025), the next 12 months (November 2024 – October 2025), the next 2 years (November 2024 – October 2026), and the next 5 years (November 2024 – October 2029). Respondents expected inflation to remain stable and below the midpoint of the target range, in November, December 2024 and January 2025, supported by lower food and fuel prices, and a stable Shilling **(Table 1).**

About 74 percent respondents expected lower inflation to be supported by moderating food prices due to favourable weather conditions. In addition, 68 percent of respondents expected stable fuel prices supported by weak global demand and downward review of local pump prices by Energy and Petroleum Regulatory Authority (EPRA) while 32 percent of respondents expected the stable shilling to support cheaper imports.

Nevertheless, 43 percent respondents were concerned about the increase in prices of food and non-alcoholic beverages due to the seasonal demand during the festive period.

Table 1: Inflation expectations (percent)

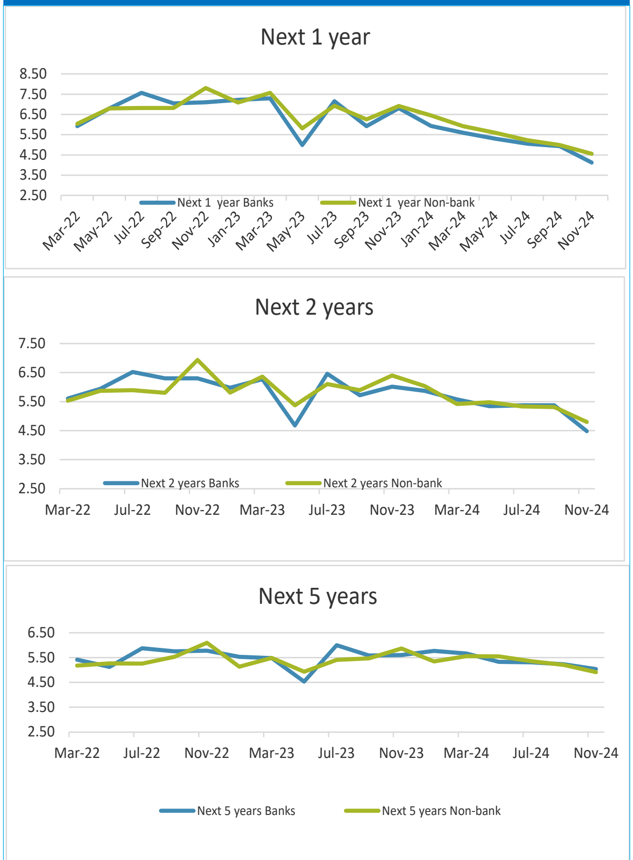
Survey month	Inflation expectations			Actual inflation
		Banks	Non-banks	
Nov-22	Nov-22	9.73	9.64	9.48
	Dec-22	9.76	9.54	9.06
Jan-23	Jan-23	9.03	8.88	8.98
	Feb-23	8.87	8.79	9.23
Mar-23	Mar-23	9.23	8.87	9.19
	Apr-23	9.12	8.91	7.90
May-23	May-23	7.98	7.39	8.03
	Jun-23	7.81	7.40	7.88
Jul-23	Jul-23	8.01	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	3.60
	Oct-24	4.38	4.72	**2.72**
Nov-24	Nov-24	2.79	2.99	**2.75**
	Dec-24	2.96	3.11	
	Jan-25	2.97	3.24	

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, lower fuel prices, and a stable Kenya Shilling **(Chart 1).**

About 73 percent respondents expected improved domestic food production supported by government subsidy towards the agriculture sector and good weather to support low inflation in the medium term. Additionally, 46 percent respondents expected lower inflationary pressure from stable exchange rate leading to lower imported inflation while 40 percent of the respondents expected the global fuel prices to support low production costs leading to low inflationary pressures.

Nevertheless, 63 percent respondents indicated that risks emanating from geopolitical uncertainties on commodity prices may result in rising logistic costs, and consequently lead to increased food, fuel and other imports prices.

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



6. ECONOMIC ACTIVITY

The November 2024 Market Perceptions Survey sought bank and non-bank private sector firms' assessment of economic activity in September, October and November, and their expectations for December 2024, January 2025 and February 2025. Respondents from banks and non-banks expected improved economic activity in the next three months **(Charts 2 & 3).**

64 percent of the respondents expected moderate to strong activity in the next three months supported by strong demand in transport, wholesale and retail, hospitality and accommodation sectors during the festive season. In January 2025, the economy is expected to be driven by the education sector and increased government spending in relation to the reopening of schools.

In addition, 64 percent of the respondents expected economic activity to increase during the period on account of low inflation and monetary policy easing, which are expected to improve customers' purchasing power, demand for credit and subsequently the expansion of business activities.

Furthermore, 36 percent respondents expected economic activity to be supported by strong agriculture sector performance due to the ongoing short rains.

However, elevated taxation and borrowing costs that have continued to suppress demand and investment, and reduced government development expenditure were cited as risks to economic activity by 75 percent of the respondents.

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

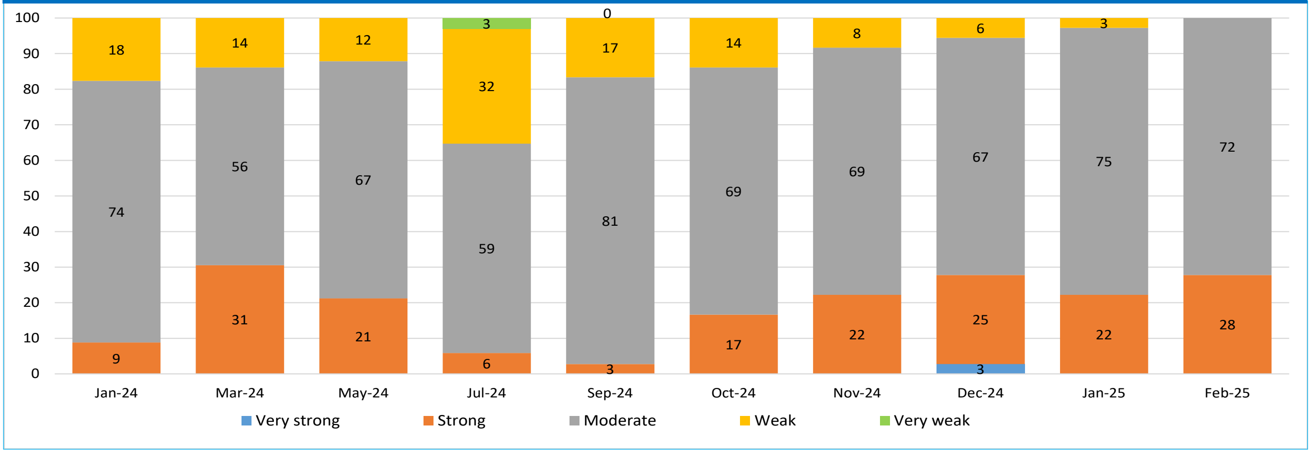
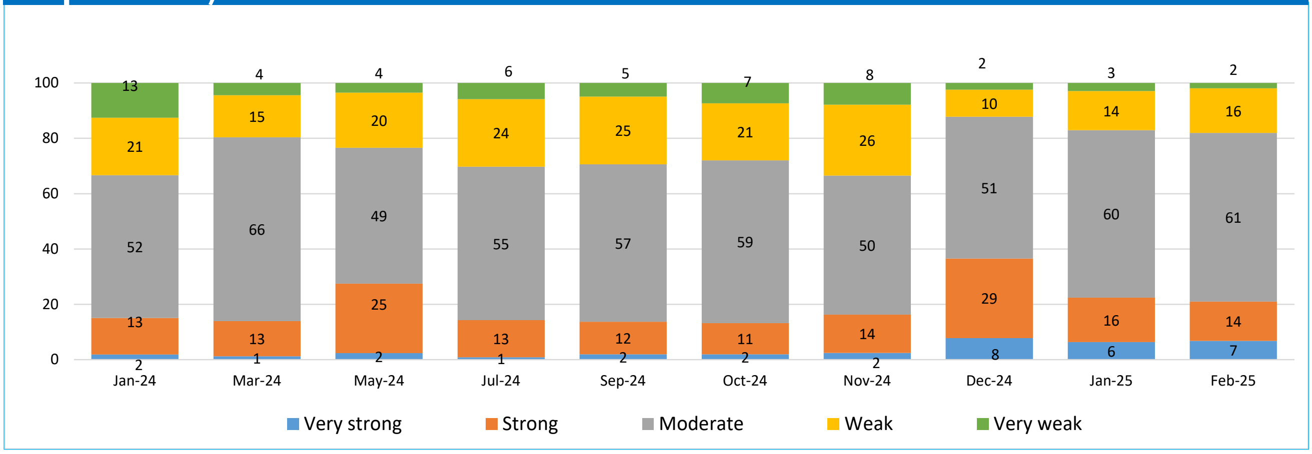


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit at end December 2024

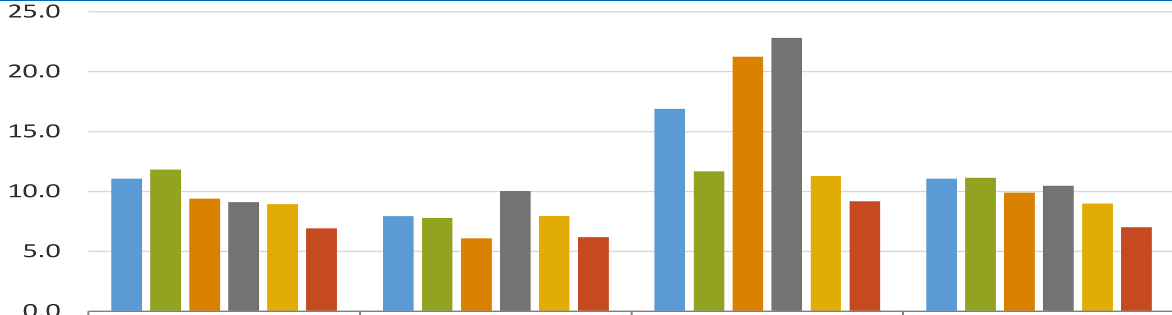
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to the private sector by end December 2024 compared with end December 2023. Respondents indicated expectations of lower private sector credit growth in 2024 compared with 2023 **(Chart 4a & 4b).**

This was mainly attributed to high lending interest rates, cautious lending by banks due to increased non-performing loans, decline in business profitability and activity which has reduced the need for credit for expansion, high taxation which has reduced disposable incomes, limiting borrowing capacity of households.

Respondents also cited the high costs of lending which has reduced the appetite for borrowing, customers preference for short term loans, increased competition from digital credit providers and the effects of the appreciation of the Kenya shilling on foreign denominated loans as other factors explaining lower private sector credit growth in 2024.

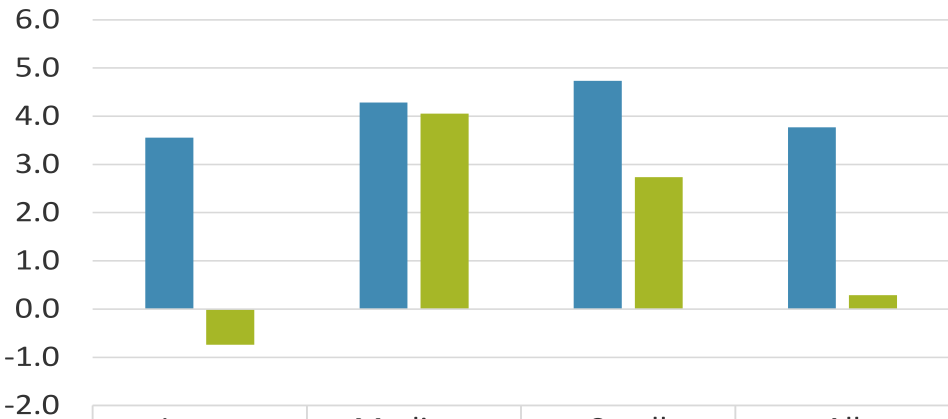
However, respondents anticipated that improving macroeconomic conditions including the stable currency and a reduction in the CBR would result in lower average lending interest rates and improve on credit uptake. Furthermore, they believed that strategic measures, including the introduction of new products and digital platforms, would enhance lending opportunities.

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



	Large banks	Medium banks	Small banks	All banks
January	11.1	7.9	16.9	11.1
March	11.8	7.8	11.7	11.2
May	9.4	6.1	21.2	9.9
July	9.1	10.0	22.8	10.5
September	8.9	8.0	11.3	9.0
November	6.9	6.2	9.2	7.0

Chart 4b: Private sector credit growth expectations for 2024 relative to 2023 (local currency vs foreign currency loans)



	Large	Medium	Small	All
Local currency loans	3.6	4.3	4.7	3.8
Foreign currency loans	-0.7	4.1	2.7	0.3

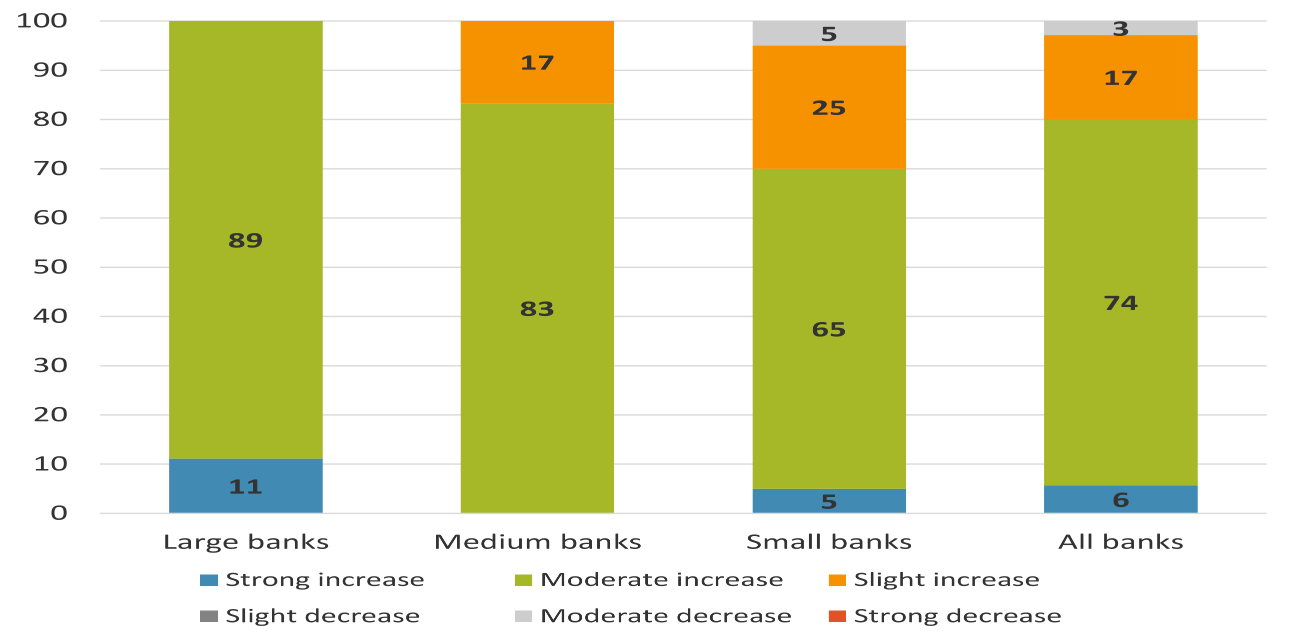
7.2 Expected direction of private sector credit growth in 2025

The Survey sought to find out from commercial banks by what percentage they expected to grow credit to the private sector in 2025 compared with 2024. Respondents indicated expectations of improved credit growth attributed to expected increase in the uptake of new facilities by the household and corporate sector **(Chart 5).**

Banks expect that falling interest rates will boost demand for loans, particularly short-term facilities. They also highlighted that the growing use of digital platforms and fintech solutions could simplify credit access and extend services to underserved markets. Additionally, economic recovery, infrastructure development, and major strategic projects, such as public-private partnerships, are projected to fuel credit demand in the construction, transport, and energy sectors.

However, respondents identified the high non-performing loans (NPLs) as a potential risk to private sector credit in 2025, primarily due to tight requirements adopted by banks, which discourages prospective borrowers from taking on additional loans.

Chart 5: Expected direction of private sector credit growth in 2025



7.3 Expected demand for credit by banks

The Survey requested bank respondents for expectations of credit demand for December 2024 and January 2025. Respondents expected increased demand for credit largely on account of festive season demand and the reopening of schools in January 2025 **(Chart 6a $ 6b).**

Banks respondents anticipate that credit demand will be primarily driven by expected lower interest rates which will attract customers and the upcoming festive season, as clients prepare to boost their stocks, followed by the back-to-school period, which is likely to boost retail and SME loan uptake. On the other hand, the non-banks need credit for working capital for various activities including renovations, marketing, business growth, payment of utilities, daily operating expenses, supplier payments, loan repayments, supplier reimbursements and purchase of inputs.

However, credit demand is expected to be constrained by high cost of credit, elevated business operating costs, limited disposable income for loan repayment, and banks' cautious lending approach toward borrowers.

Chart 6a: Expectations on demand for credit from banks' perspective (percent of respondents)

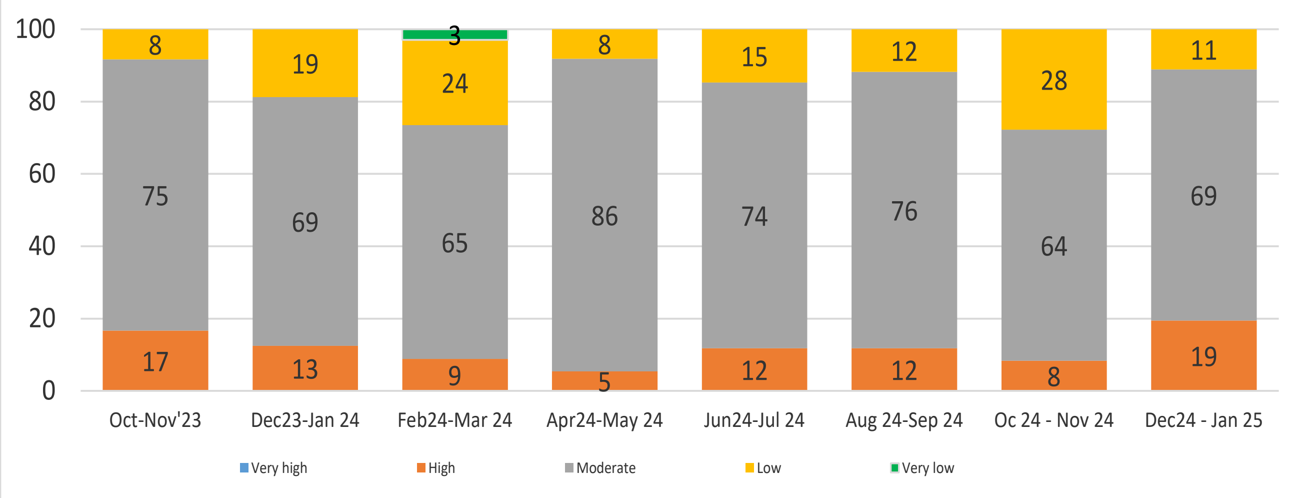
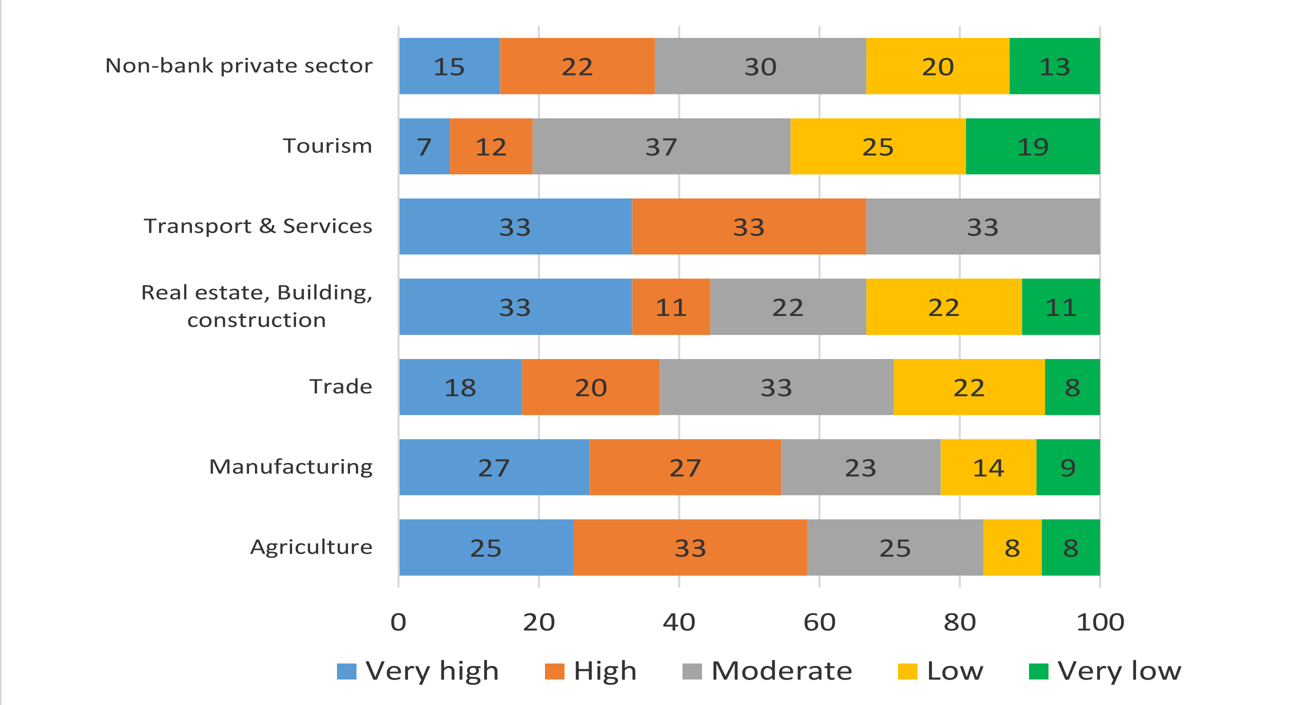


Chart 6b: Expectations on demand for credit from non-banks' perspective (percent of respondents)

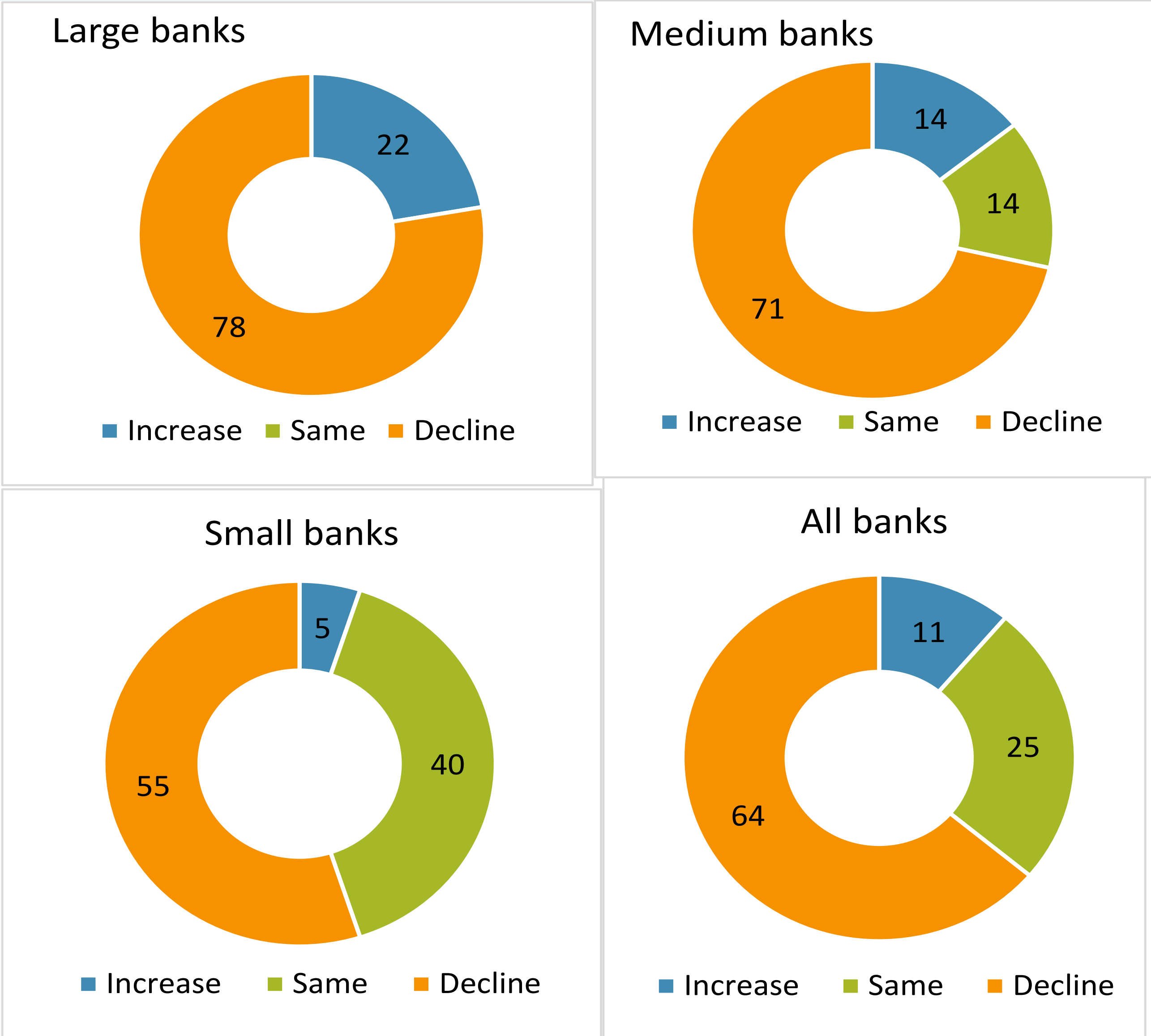


7.4 Expected direction of lending rates in 2025

The Survey requested bank respondents for the expectations of the lending rates for 2025. Respondents expected a reduction in the lending rates largely on account of reduction in the CBR **(Chart 7).**

Banks anticipate the lending rates to decline in tandem with the reductions in CBR and hence spur private sector credit demand. However, respondents highlighted several risks to achieving lower lending rates, including the adoption of the risk-based pricing model alongside the challenging business environment, the high cost of funds and the increasing non-performing loans.

Chart 7: Expectations on the direction of lending rates in 2025 (percent of respondents)



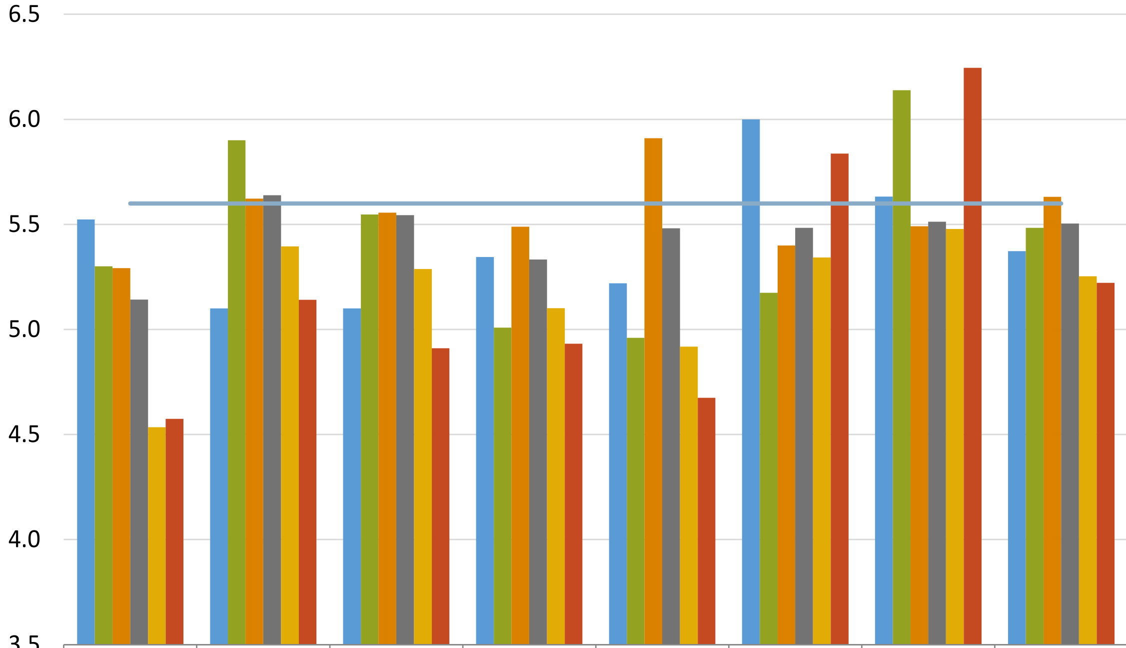
8. EXPECTED ECONOMIC ACTIVITY

The Survey requested participants to indicate their estimated economic growth rates for the country in 2024. Respondents expected economic growth to be lower in 2024 compared with 2023, but to remain resilient supported by a stable macroeconomic environment and strong performance in the agriculture and service sector (Chart 8).

About 60 percent of the respondents expect 2024 economic growth to be driven by strong performance in agriculture and higher spending during the festive season which will support retail, hospitality, and transport sectors. In addition, 65 percent respondents expected easing inflation, stable currency and expected further CBR cuts to support private investments and boost demand in the economy.

However, 50 percent of the respondents identified the high cost of living and increased taxes, which have diminished disposable income and curtailed consumer spending as the main risks to economic growth projections. About 72 percent of respondents, indicated that elevated public debt and fiscal austerity measures, may constrain government spending and slow the pace of economic recovery.

Chart 8: Expectations on economic growth for 2024 (percent)



	Banks	Agriculture	Manufacturing	Trade	Real estate	Transport	Tourism	Non-bank
Jan	5.5	5.1	5.1	5.3	5.2	6.0	5.6	5.4
Mar	5.3	5.9	5.5	5.0	5.0	5.2	6.1	5.5
May	5.3	5.6	5.6	5.5	5.9	5.4	5.5	5.6
Jul	5.1	5.6	5.5	5.3	5.5	5.5	5.5	5.5
Sep	4.5	5.4	5.3	5.1	4.9	5.3	5.5	5.3
Nov	4.6	5.1	4.9	4.9	4.7	5.8	6.2	5.2
2023 growth	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6

9. EMPLOYMENT EXPECTATIONS

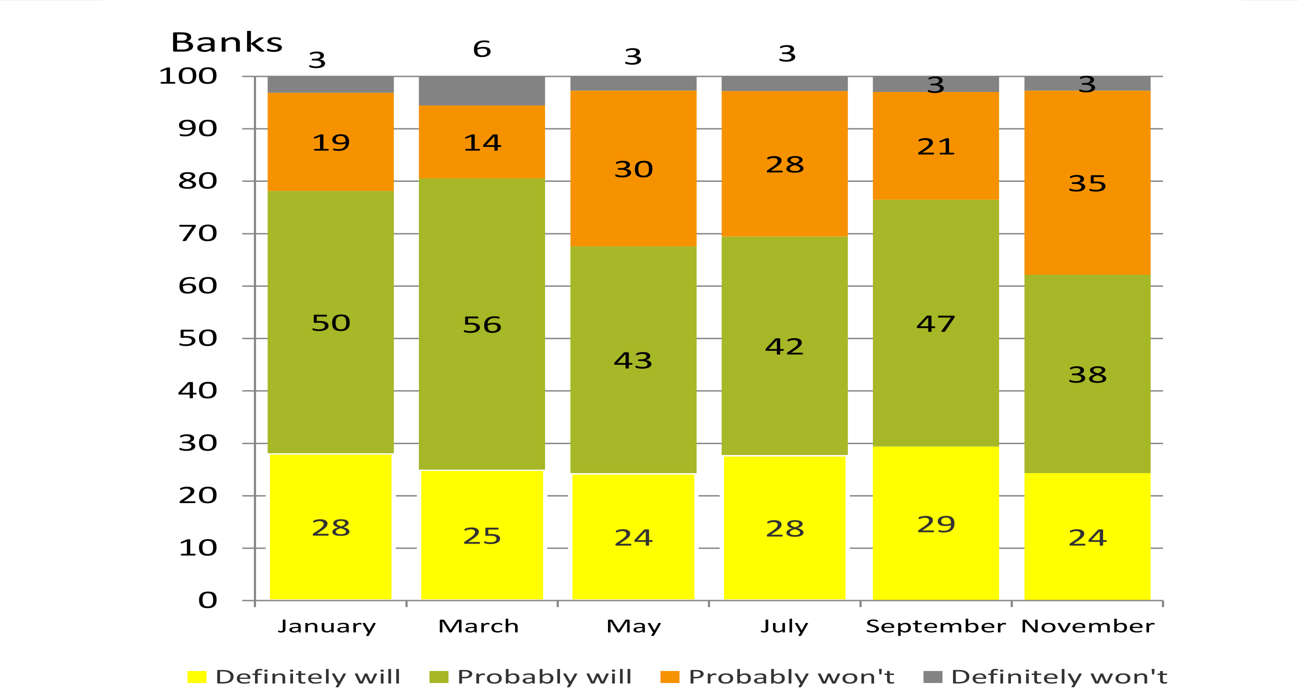
Respondents were asked about their expectations of hiring in 2024 compared with 2023. Bank and non-bank private firms showed mixed hiring expectations for 2025 **(Chart 9a).**

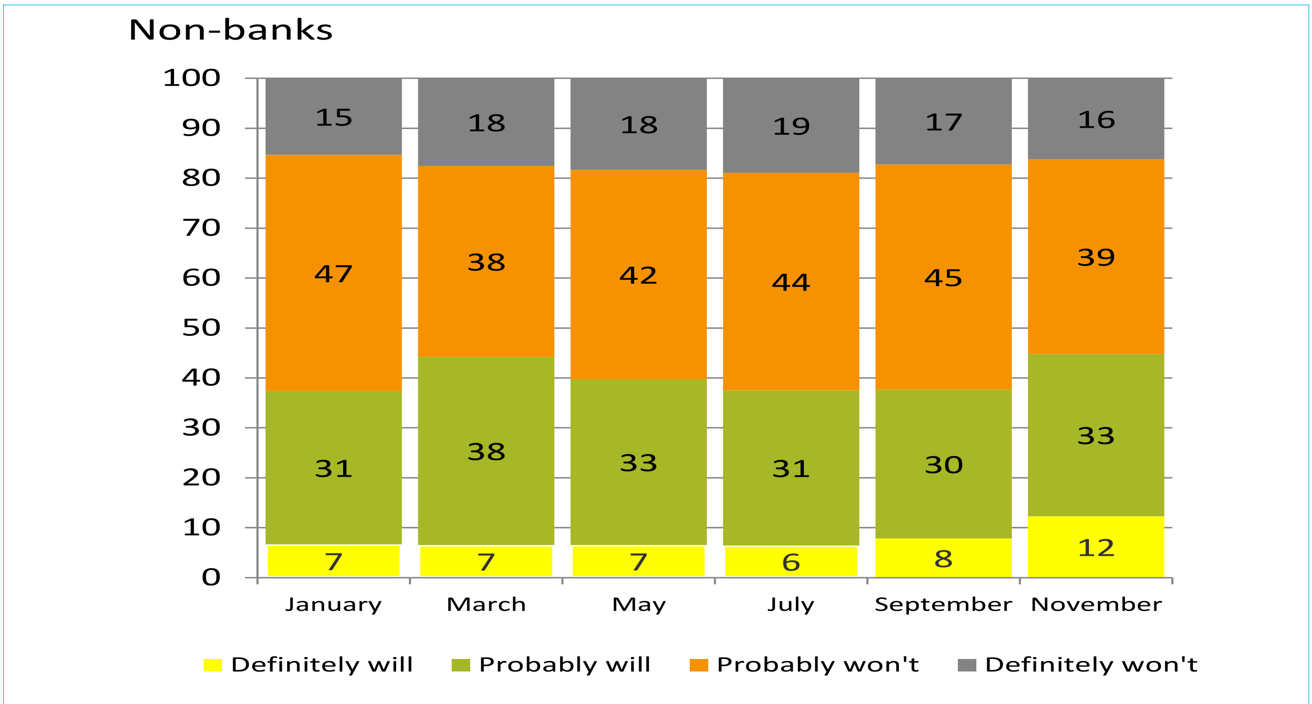
In the November survey, 62 percent of banks expected to hire more employees in 2024 compared with those they had in 2023 while only 45 percent of non-banks expected to increase their employees in 2024.

Banks largely expect to hire more in 2024 to support continued branch expansion, growth in business and launch of new products as well as focused recruitment to fill vacant roles and areas critical to business operations. Similarly, non-bank players expect to hire additional staff, particularly contract employees during the festive season.

Nevertheless, respondents indicated that the rise in taxation, reduction in consumer purchasing power and demand uncertainties may delay hiring decisions.

Chart 9a: Employment expectations for 2024 compared with 2023 (percent)

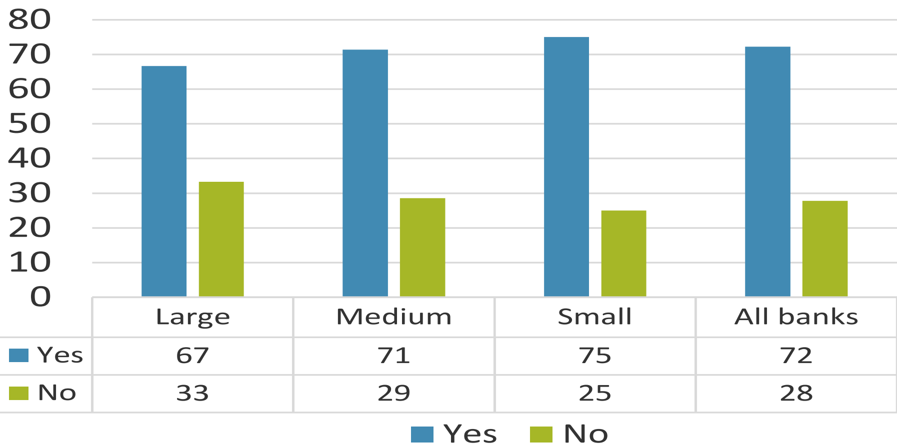




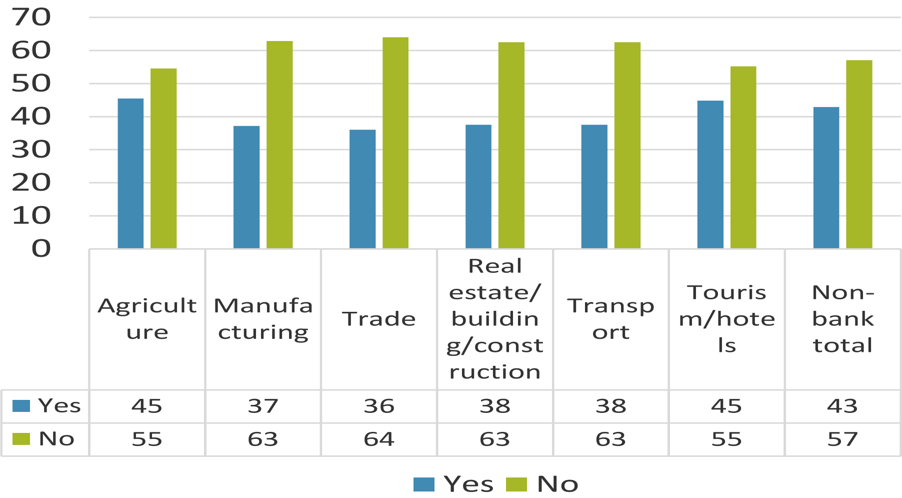
In addition, respondents were asked about their hiring expectations for 2025. The results showed varied hiring expectations between banks and non-banks **(Chart 9b).**

The responses showed that 72 percent of banks expect to hire in 2025 compared with 43 percent of non-banks. The non-banks cited the prohibitive cost of running business, low business out-turns, increased staff costs, taxes as well as pending bills as the main impediments to new hires in 2025. In addition, they indicated plans of scaling down due to low business and the leveraging on ICT and technology which has reduced on manual operations.

Chart 9b: Hiring expectations for 2025 by banks and non-bank private firms (percent respondents)



	Large	Medium	Small	All banks
Yes	67	71	75	72
No	33	29	25	28



	Agriculture	Manufacturing	Trade	Real estate/building/construction	Transport	Tourism/hotels	Non-bank total
Yes	45	37	36	38	38	45	43
No	55	63	64	63	63	55	57

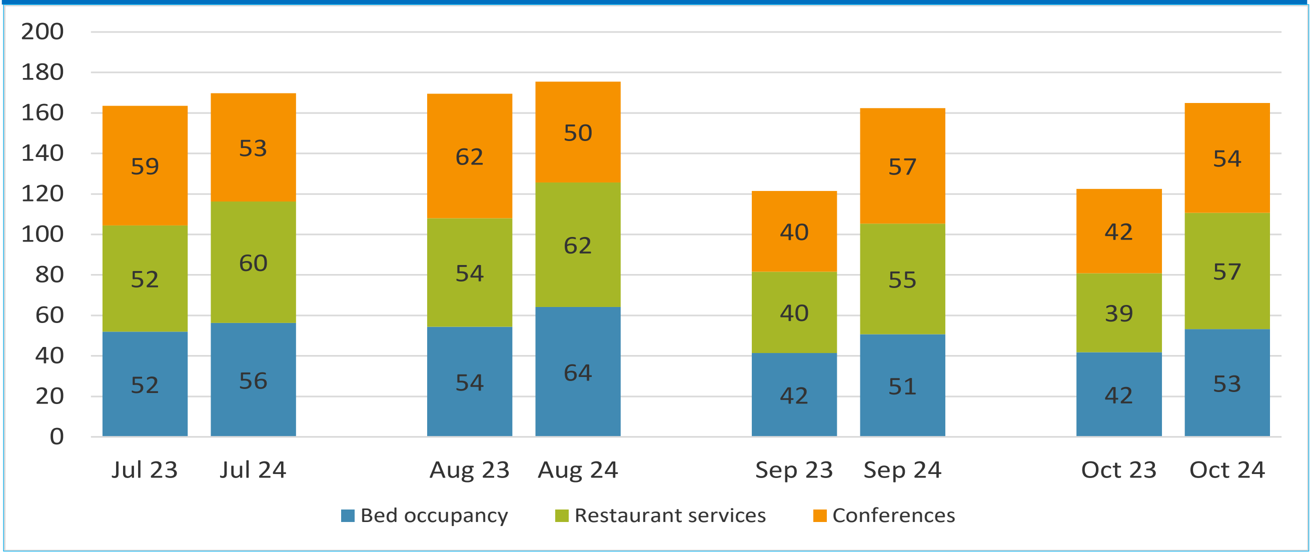
10. OPTIMISM ON THE ECONOMIC PROSPECTS

10.1. Hotel activity July – October 2024

The Survey requested hotel respondents to indicate the levels of activity, including bed occupancy, restaurant services and conference services, experienced in the last four months from July to October 2024 **(Chart 10).**

According to the respondents, bed occupancy levels, restaurant services and conferences improved in October 2024 compared to the same period last year. The recovery has been gradual following the Q2/Q3 disruptions and the travel restrictions. The medical and tech summits drove up the August and September occupancy rates. However, the respondents cited that they are facing challenges including low demand due to low purchasing power, high costs of production, increased competition from Airbnb's, and low government activities which has affected the conferencing facilities.

Chart 10: Hotel activities (July – October 2024) (Percent)

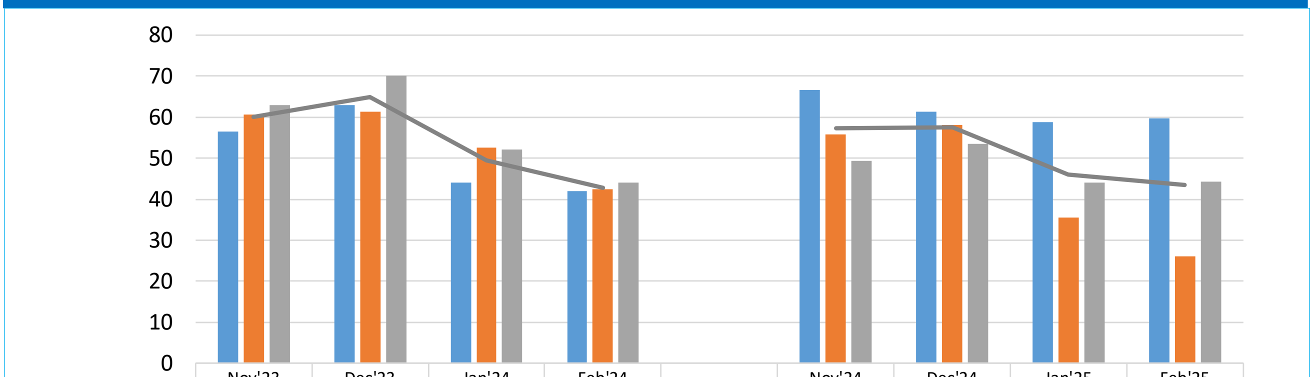


10.2. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for the period November 2024 to February 2025. The survey revealed improved bookings at the coast during the period **(Chart 11).**

The hotels indicated that they are receiving more online bookings largely from Europe and from the locals due to the festive season.

Chart 11: Hotel forward bookings (November 2024 – February 2025)



	Nov'23	Dec'23	Jan'24	Feb'24		Nov'24	Dec'24	Jan'25	Feb'25
Mombasa	56.5	63	44	42		67	61	59	60
Nairobi	60.7	61.3	52.5	42.5		56	58	36	26
rest	63	70	52	44		49	54	44	44
average	60.1	64.8	49.5	42.8		57	58	46	43

Mombasa Nairobi rest average

Respondents cited that the forward bookings are being hindered by weak consumer purchasing power, the ongoing rains, business slowdown at the end of the year, inflated costs at the hotels due to commissions charged on online bookings, and increased competition from Airbnb's **(Chart 11).**

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 12 & 13).**

About 80 percent of the respondents cited that the key macroeconomic variables are well aligned to growth in 2025. The low inflation, stable shilling and effects of monetary policy easing are expected to boost demand in the domestic economy. In addition, 39 percent of the respondents were optimistic that the stable political climate coupled with Government policies would promote production while 50 percent of the respondents expect strong performance of the agricultural, tourism and ICT sector to boost economic growth.

However, 88 percent of the respondents noted that the main risks to this optimism were high taxation, which has strained household budgets, reducing demand and economic activity and 50 percent respondents were concerned about the elevated public debt and austerity measures by the government.

Chart 12: Optimism in growth prospects by banks (% respondents)

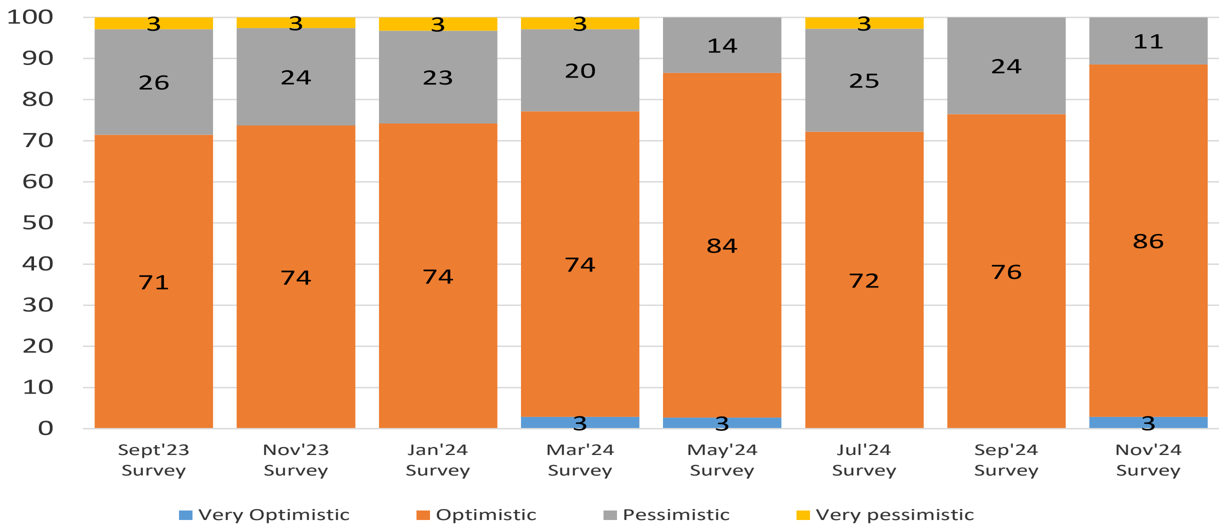
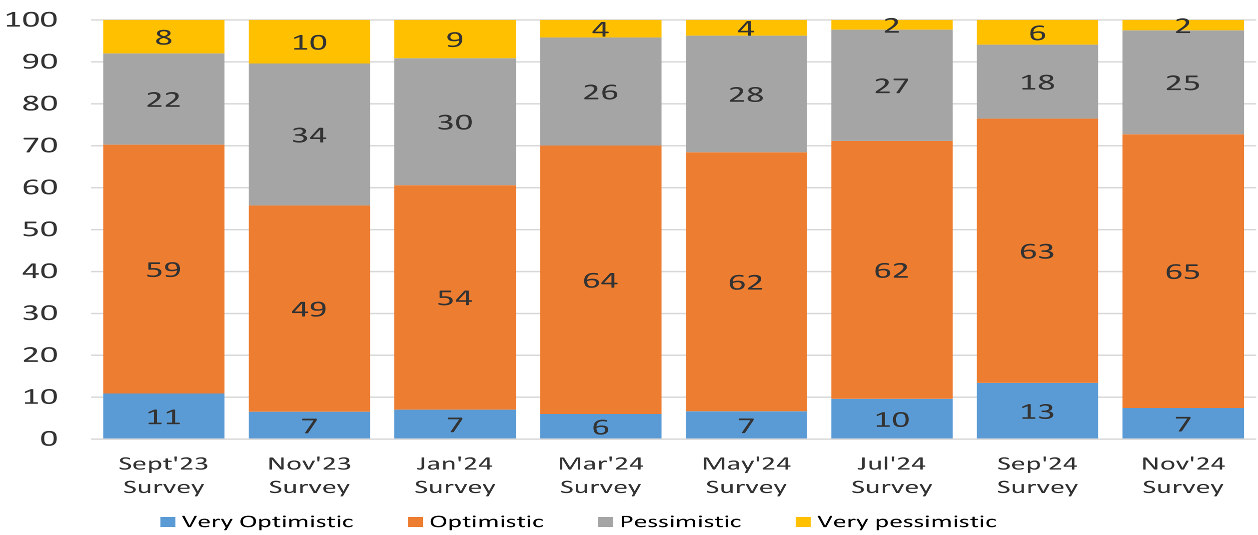


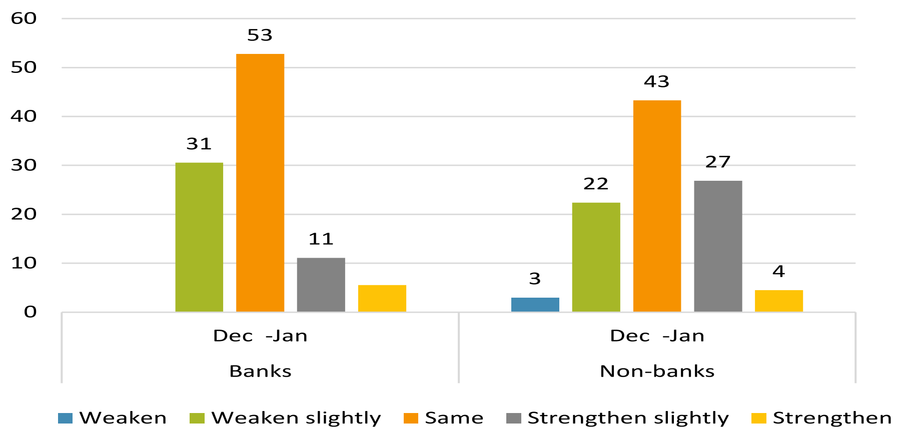
Chart 13 Optimism in growth prospects by non-bank private sector (% respondents)



11. EXCHANGE RATE EXPECTATIONS

The Survey sought from bank and non-bank private sector firms their expectations regarding the direction of change in the exchange rate of the Shilling against the US Dollar in December 2024 and January 2025. Respondents expected the exchange rate of the KSh against the USD to remain largely at the current levels or strengthen in the next 2 months **(Chart 14)** .

Chart 14 Exchange rate expectations (% respondents)



Respondents expected support for the Shilling to come from Strong diaspora remittances, boosted by increased labor exports, easing global oil prices and improved tourism and services sector performances due to end year festivities as well as adequate foreign reserves. However, respondents highlighted some risks to the exchange rate, including high demand for imports, dividend repatriations, foreign debt repayments, and the strengthening of the US Dollar driven by the resilience of the US economy.

12. HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Bank respondents emphasized that the government should prioritize timely payment of pending bills to free up liquidity for businesses. They also recommended simplifying and stabilizing tax policies to create a predictable business environment and attract investment. Additionally, reducing taxes and levies for SMEs, individuals, and corporations would enhance disposable income and operational capacity. They advocated for the gradual implementation of new levies and deductions to prevent financial shocks to businesses and households.

Non-bank respondents emphasized the need for targeted government support in agriculture, manufacturing, and renewable energy sectors to drive growth. They also underscored the importance of regulatory reforms, such as streamlining licensing and compliance processes to minimize operational hurdles and improving transparency within regulatory frameworks. Additionally, they recommended that the government expedite VAT refund payments to manufacturers, as the accumulation of unpaid refunds is raising operating costs, which are ultimately passed on to consumers.

Furthermore, non-bank respondents suggested that lower interest rates would enhance credit accessibility for businesses and individuals. They noted that the shocks for businesses and households.

Central Bank of Kenya

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

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