



Central Bank of Kenya

Market Perceptions Survey

September 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 September 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 (July, August, and September 2024), expectations for the next three months (October, November, and December 2024), the next one year (October 2024 – September 2025), the next two years (October 2024 – September 2026), and the next five years (October 2024 – September 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 September 2024 Survey was 81 percent of the sampled institutions. The respondents comprised 35 commercial banks, 12 micro-finance banks, and 240 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 September 2024 Market Perceptions Survey included:

1. Respondents expect inflation to be low and stable in the next three months, and to be below the midpoint of the target range on account of improved food supply, lower energy prices and a stable Shilling.
2. Respondents expect increased economic activity in October, November and December, 2024 supported by demand from the end

year festivities, agricultural activity attributed the short rains, and a stable macroeconomic environment.

3. Respondents expect economic growth in 2024 to be lower than 2023 but to remain resilient supported by improved agricultural production and service sector as well as a stable macroeconomic environment.
4. The survey showed mixed hiring expectations by banks and non-bank private firms for 2024 compared with 2023.
5. Bank respondents expect lower private sector credit growth in 2024 compared with 2023 largely due to higher lending rates.
6. The survey revealed sustained optimism by 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 (September, October, and November 2024), the next 12 months (September 2024 – August 2025), the next 2 years (September 2024 – August 2026), and the next 5 years (September 2024 – August 2029). Respondents expected inflation to remain stable below the midpoint of the target in September, October and November, supported by lower food and fuel prices, and a stronger Shilling (**Table 1**).

About 82 percent respondents expected inflation to be supported by moderating domestic fuel prices, expected to benefit from the relatively low global oil prices, a stronger Shilling and the high base effect. The lower fuel prices are expected to have a positive impact on the costs of production, transport and electricity, thereby resulting in lower inflation. In addition, 68 percent and 52 percent respondents, respectively, expected stable food prices due to

improved food production on account of favourable weather conditions & government support, and positive exchange rate pass-through effects on imported inflation due to a strong shilling to moderate overall inflation in the next three months.

Nevertheless, 41 percent respondents were concerned about the increase in prices of other foods and non-alcoholic beverages.

Table 1: Inflation expectations (percent)

Survey month	Inflation expectations		Actual inflation	
	Banks	Non-banks		
Jul-22	Jul-22	8.07	7.38	8.32
	Aug-22	8.20	7.62	8.53
Sep-22	Sep-22	8.52	8.28	9.18
	Oct-22	8.50	8.18	9.59
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	
	Nov-24	4.53	4.90	

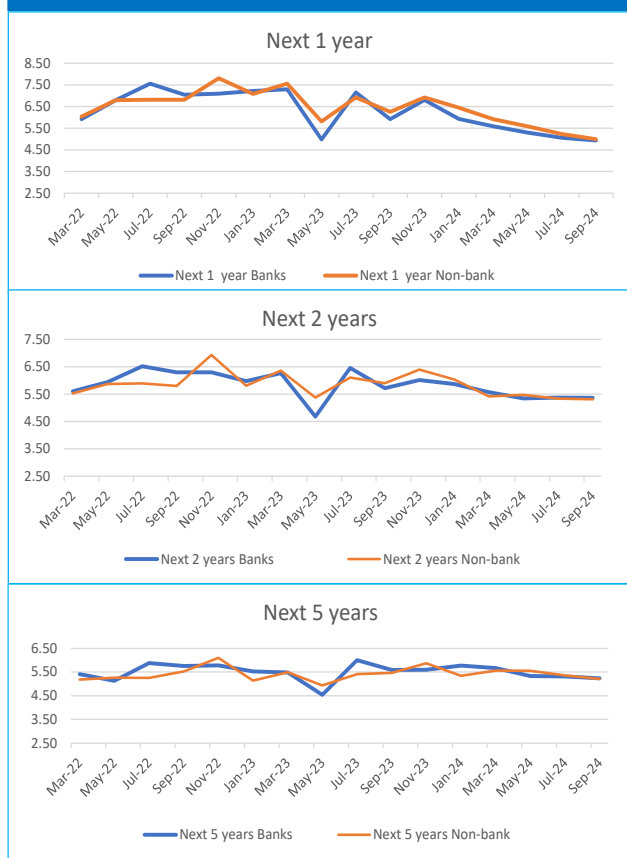
Over the medium term, respondents expected inflation to remain anchored close to the midpoint of the target range on account of expected stability in food prices, lower fuel prices, and a stable Kenya Shilling (**Chart 1**).

About 78 percent respondents expected stable domestic food production supported by favourable weather and government efforts towards enhanced food security including fertilizer subsidy to support low inflation in the medium term.

Additionally, 53 percent respondents expected lower inflationary pressures from global oil prices in the medium term on account of the projected moderation in global oil prices as US increases production and the EU shifts from over dependence on Russia to Norway and African countries, both of which are likely to result in oil price stability, thereby impacting local electricity and production prices, resulting in lower inflation.

Furthermore, 53 percent respondents expected stability of the Kenya Shilling to hold and thereby moderate imported inflation over the medium term.

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



6. ECONOMIC ACTIVITY

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

Respondents expected moderate to strong activity in the next three months largely supported by a pickup in business activity, demand, travelling, household consumption and spending related to the upcoming holiday season, as cited by 71 percent respondents.

In addition, 64 percent respondents expected economic activity to increase during the period on account of increased agricultural activities with the onset of the short rains.

Furthermore, 58 percent respondents expected a relatively stable Shilling to support capital investments and investor confidence, and the onset of monetary easing to improve sentiment and overall confidence, support private sector credit and consequently business activities during the period.

However, reduced aggregate demand as the government implements austerity measures, muted demand by consumers due to low purchasing power and stagnant incomes were cited as a risk to economic activity by 59 percent respondents.

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

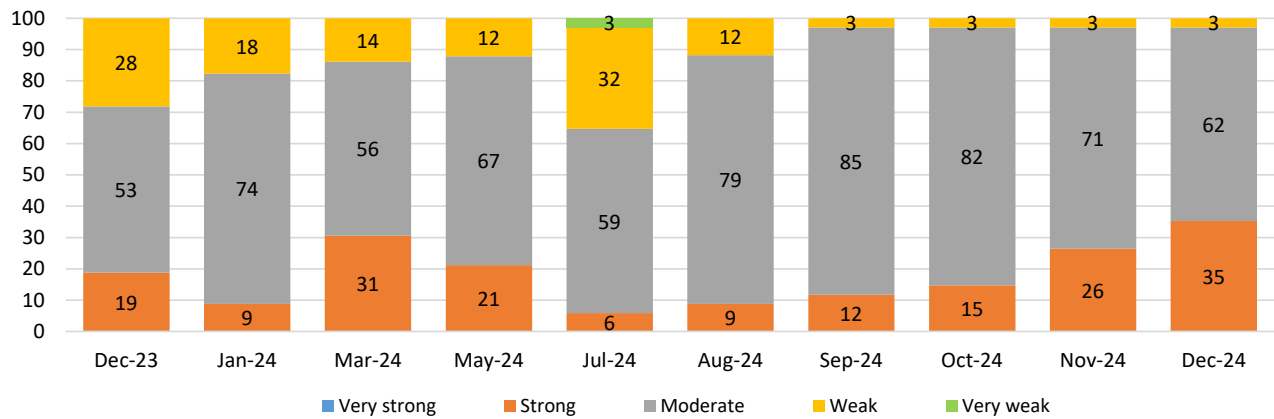
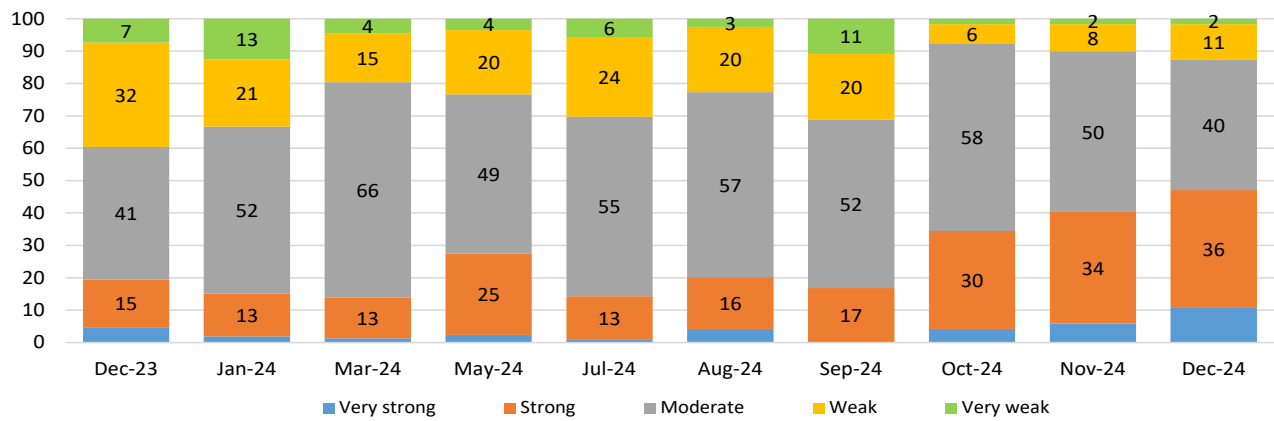


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

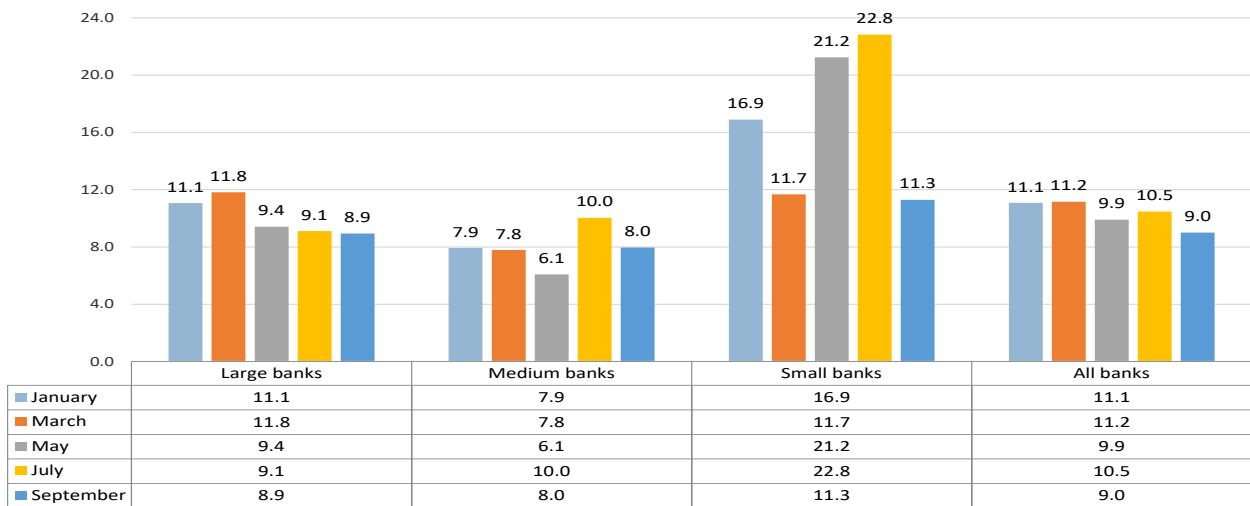
7.1. Growth in private sector credit at end December 2024

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. Respondents indicated expectations of lower private sector credit growth in 2024 compared with 2023 largely due to high lending rates, the impact of the local currency appreciation on the foreign currency loans, earlier CBK interventions which exerted pressure to increase the price of loans amidst implementation of the risk-based pricing by banks, thereby slowing down the pace of the uptake of new facilities, resulting in high non-performing loans and hence reduced business appetite (**Chart 4**).

Respondents also cited the impact of the recent protests as a cause of delayed investments, and banks cautious lending stance to minimize the risk of default as factors contributing to the low credit growth.

Nevertheless, respondents expected the improving macro-economic conditions and business environment to support private sector credit growth for the remainder of the year. Additionally, respondents expected that credit demand for working capital from key sectors, for financing of new opportunities within various sectors, increased short-term borrowing to reduce financial constraints in businesses to give rise to demand for credit from various key sectors in the economy.

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



7.2. Expected demand for credit by banks

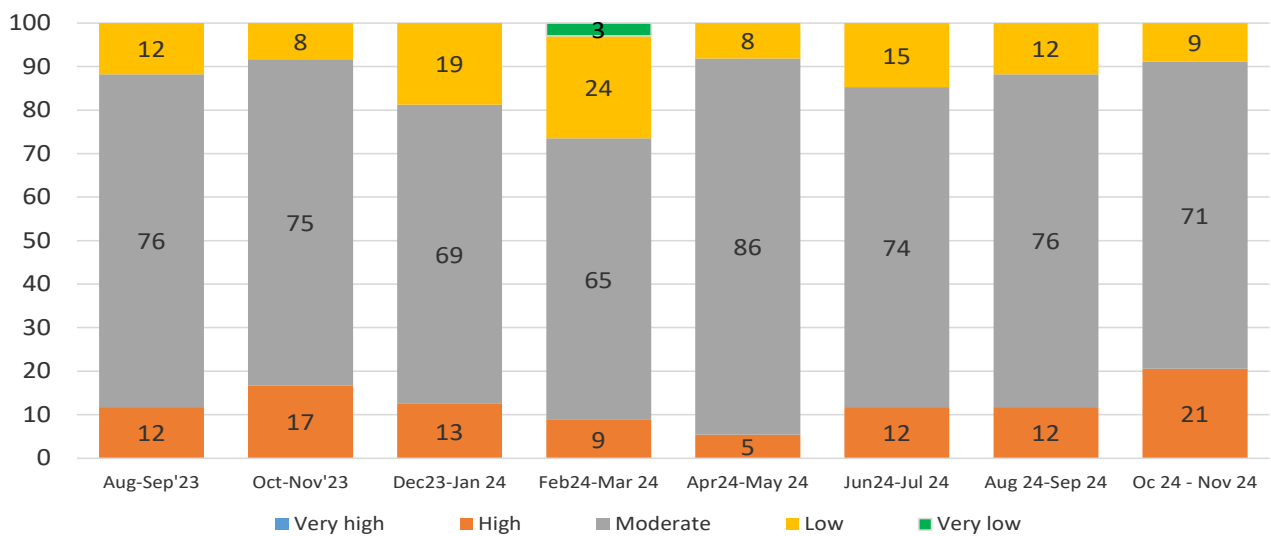
The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e., August and September 2024), and their expectations for October and November 2024. Respondents expected increased demand for credit largely on account of seasonal factors (**Chart 5**).

About 73 percent of the bank respondents expected demand for credit to be driven by high spending

during the festive season while 55 percent of the respondents expected credit demand to be driven by increased short-term borrowing to reduce working capital and capital expenditure constraints for businesses and for financial support to individuals and households.

However, credit demand is expected to be tempered by relatively high cost of credit which has led corporates to adopt a wait and see attitude, cited by 75 percent respondents.

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



8. EXPECTED ECONOMIC GROWTH

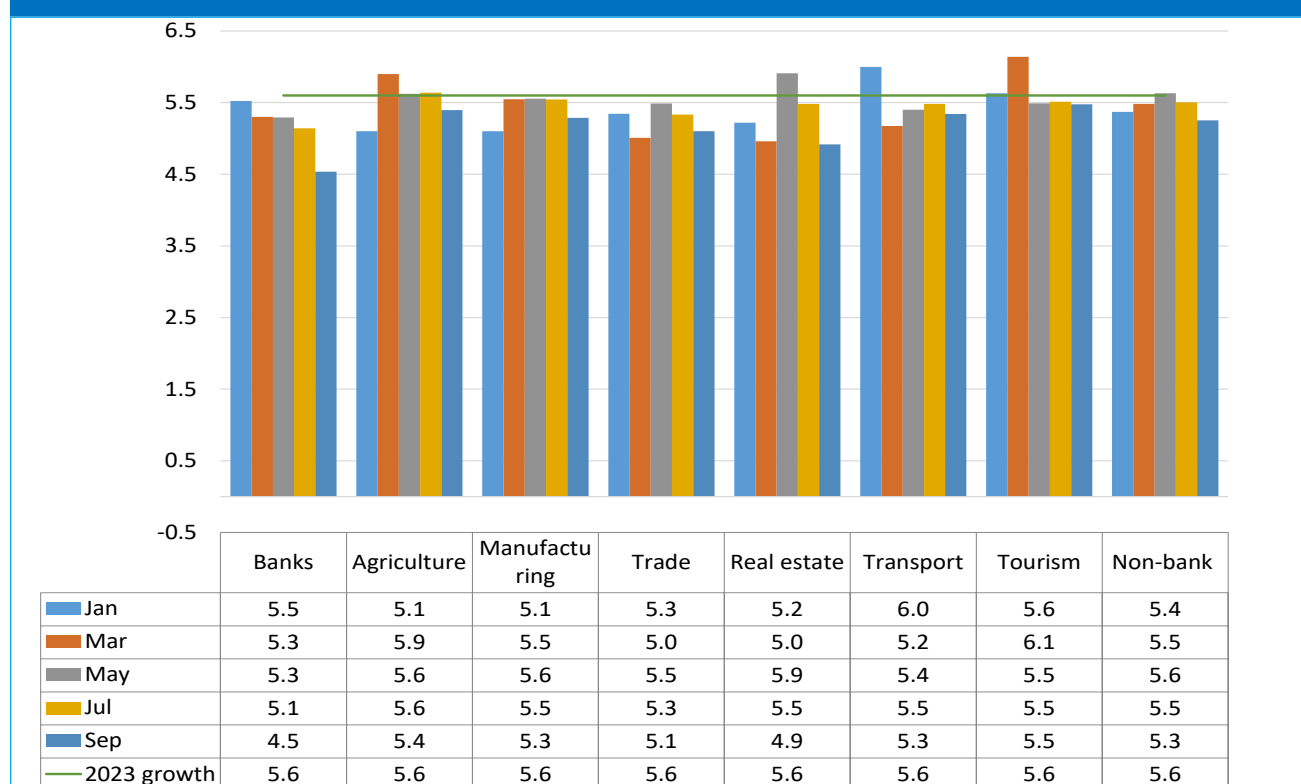
The Survey requested participants to indicate their estimated economic growth rates for the country in 2024. Respondents expected economic growth to be lower in 2024 compared with 2023, but to remain resilient supported by a stable macroeconomic environment and strong agriculture performance **(Chart 6)**.

About 82 percent respondents expect 2024 economic growth to be driven by strong performance in agriculture attributed to favourable weather and input subsidies by the government. In addition, 66 percent and 55 percent respondents respectively, expected economic growth support to come from a resilient services sector, and the easing monetary

policy amid low inflation and a stable currency which are expected to build confidence and demand in the domestic economy.

However, risks to economic growth cited by 77 percent of the respondents included the inability to increase government spending post the Finance bill and the cautious consumer expenditure due to low purchasing power. About 60 percent of the respondents indicated that the impact of the recent protests experienced in the country, and the business interruptions could slow down the 2024 economic growth outcome.

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



9. EMPLOYMENT EXPECTATIONS

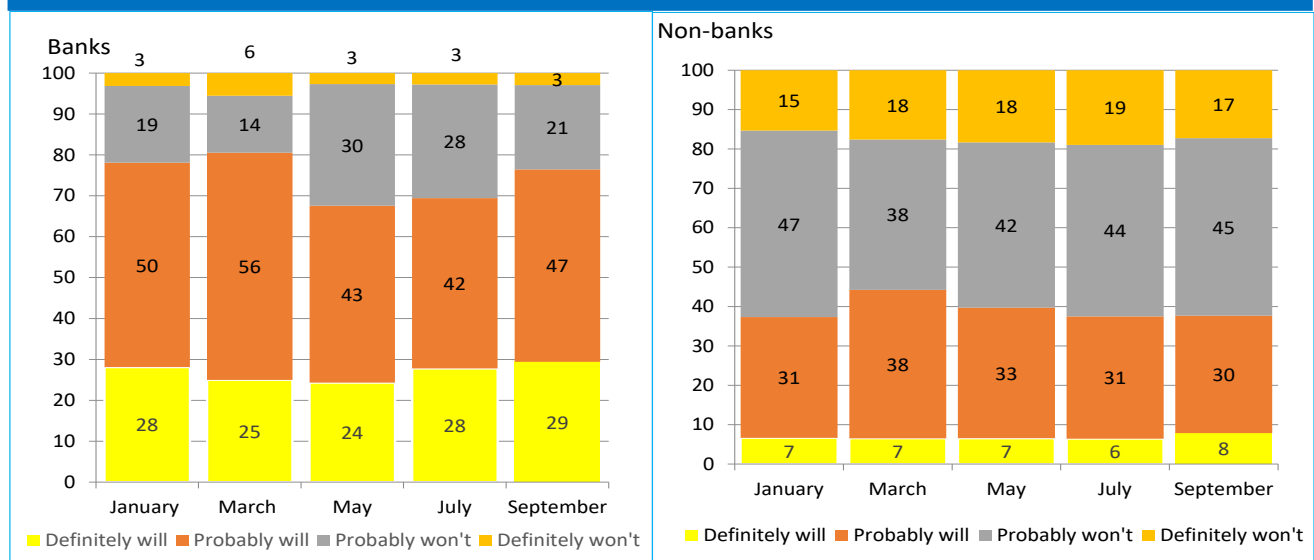
Respondents were asked about their expectations on the number of employees they expected to retain in 2024 compared with 2023. Bank and non-bank private firms showed mixed hiring expectations for 2024 (**Chart 7**).

In the September survey, 76 percent of banks expected to hire more employees in 2024 compared with those they had in 2023 while only 38 percent of non-banks expected to increase their employees in 2024.

Banks largely expect to hire more in 2024 to support continued branch expansion and growth in business, launch of new products, and to replace exiting staff.

On the other hand, non-bank players had mixed expectations about hiring in 2024. Non-banks expected the high cost of production, high overheads, low profit margins, low business, reduced income, high cost of operations, business uncertainty and the need to hold down costs with the reduced demand in the market to affect new hires in 2024.

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

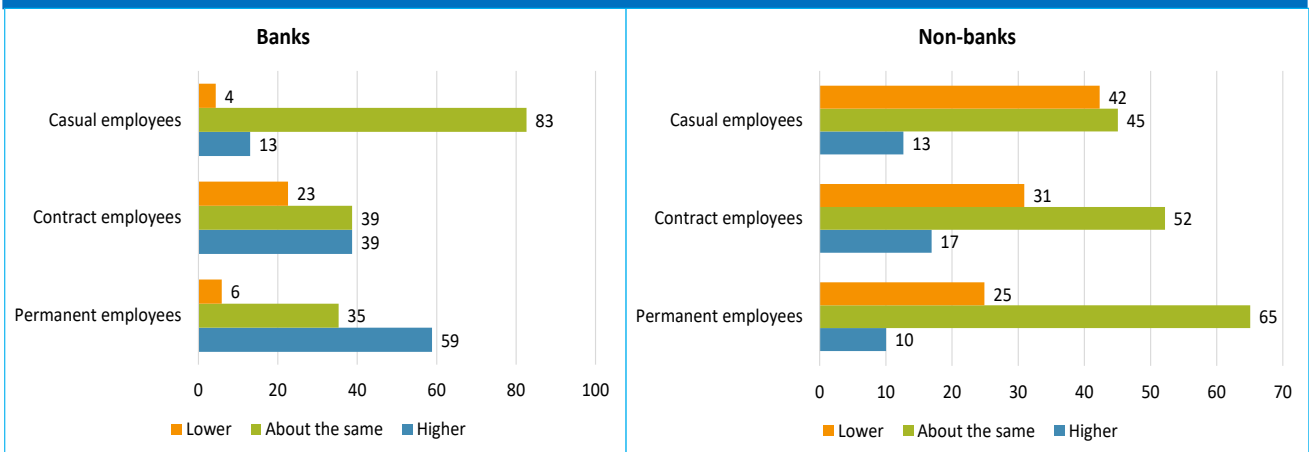


In addition, respondents were asked how the number of permanent, contract and casual employees in their firms compare with those in a similar period in 2023. The results showed varied hiring expectations between banks and non-banks (**Chart 8**).

The responses showed that 59 percent banks have hired new permanent staff in 2024 compared with only 10 percent of non-banks. At the same time, 25

percent non-bank companies have so far laid-off permanent staff in 2024 compared with only 4 percent of banks. Banks have largely retained the numbers of casual employees they had in 2023 whereas non-banks have significantly reduced the numbers of casual employees. The survey findings therefore show that non-banks have employed less and laid off more in 2024 compared with banks.

Chart 8: How does the current number of employees (Permanent, contract and casual) compare with those at a similar period in 2023? (percent respondents)



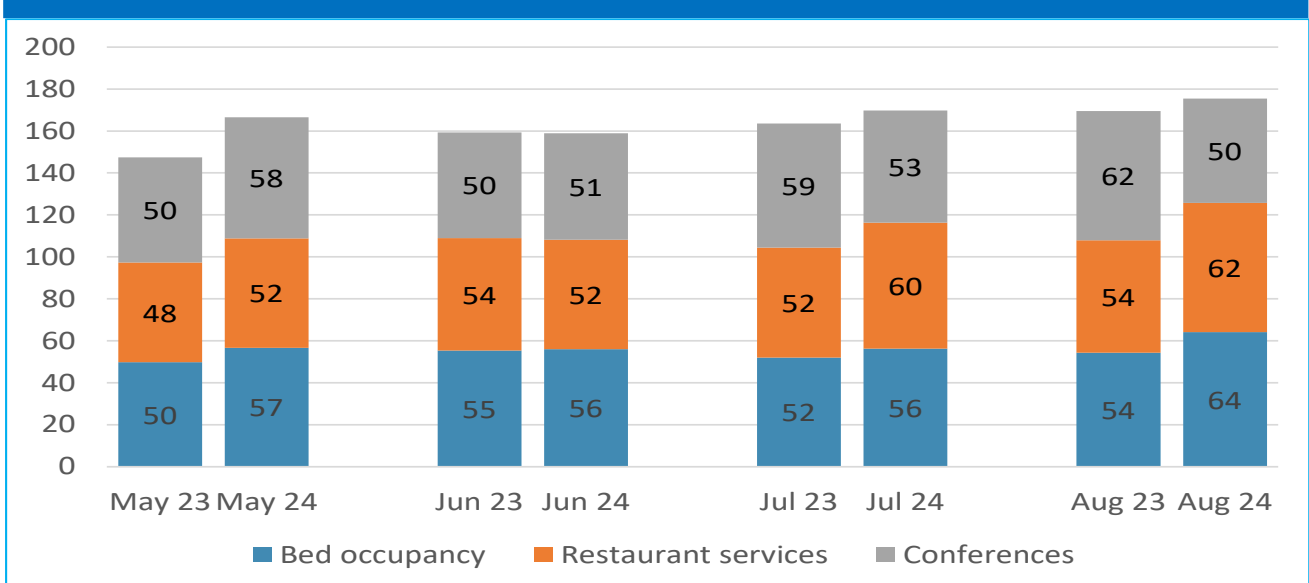
10. OPTIMISM ON THE ECONOMIC PROSPECTS

10.1. Hotel activity May – August 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 (May -August 2024) (Chart 9).

According to the respondents, bed occupancy levels, restaurant services and conferences were largely impacted by low business levels arising from low spending power in the economy due to reduced disposable incomes. In addition, respondents indicated that some conference participants would not extend to accommodation but instead opted for other accommodation including Airbnbs.

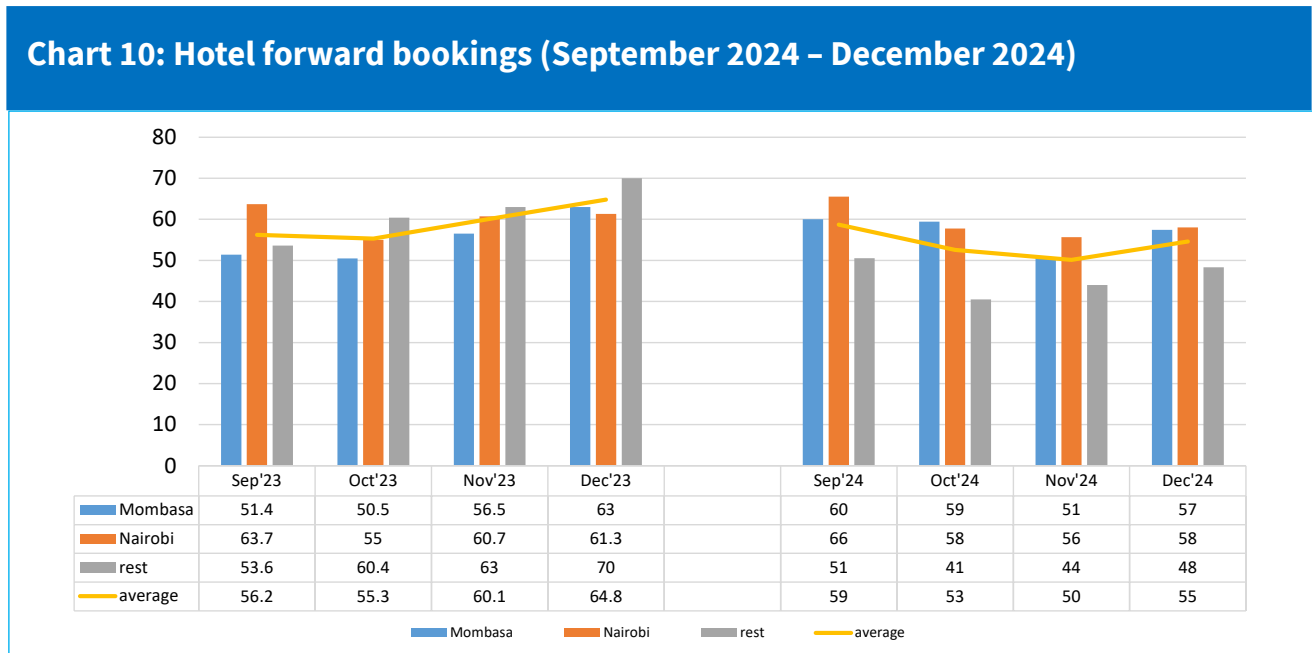
Chart 9: Hotel activities (May 2024 – August 2024)



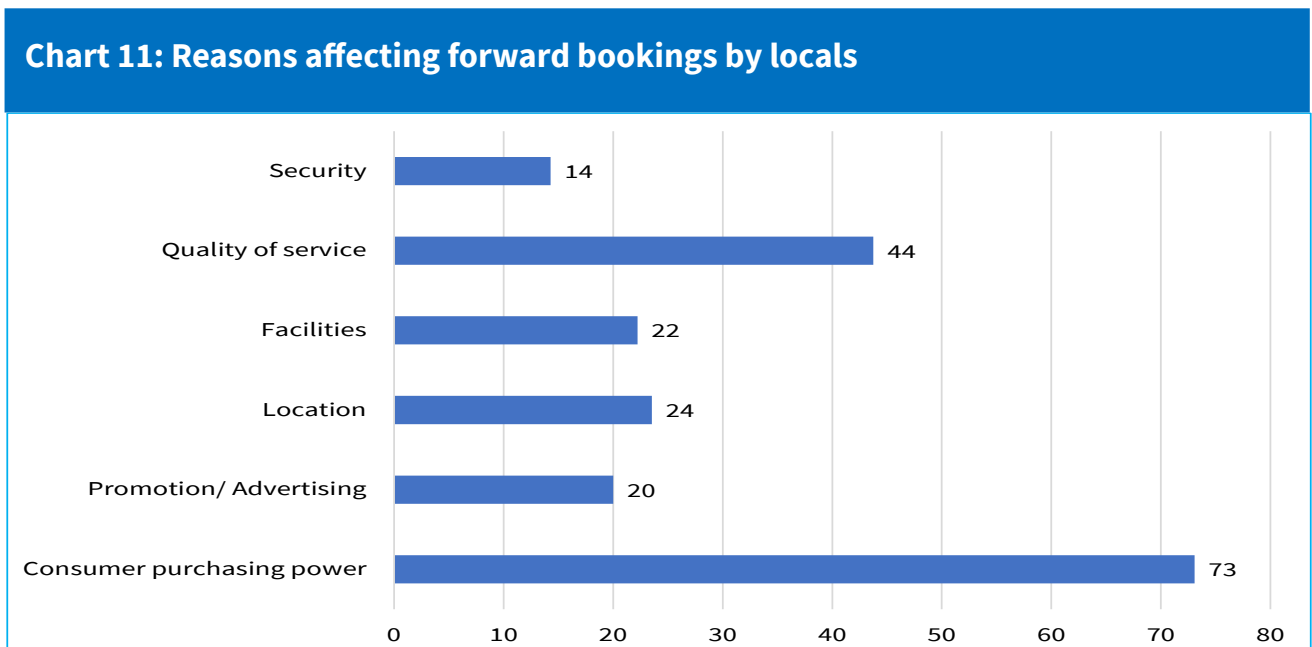
10.2. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for the period September to

December 2024. The survey revealed relatively good average forward hotel bookings during the period **(Chart 10)**.



Respondents cited the weak consumer purchasing power as the main risk to forward bookings by locals **(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 72 percent of the respondents were optimistic about economic prospects on account of the stable macroeconomic environment including low inflation, stable shilling, expected decline in interest

rates as a result of monetary policy easing, which is expected to boost demand in the domestic economy. In addition, 65 percent and 50 percent respondents, respectively, were optimistic about continued strong performance of the agricultural sector on account of favourable weather patterns and government interventions as well as the resilience of the services sector.

However, the main risk to this optimism as cited by 67 percent respondents was the effect of high direct and indirect taxes on businesses and likelihood of taxation constraining growth in the medium term by destabilizing businesses, and creating an unpredictable and uncertain operating environment.

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

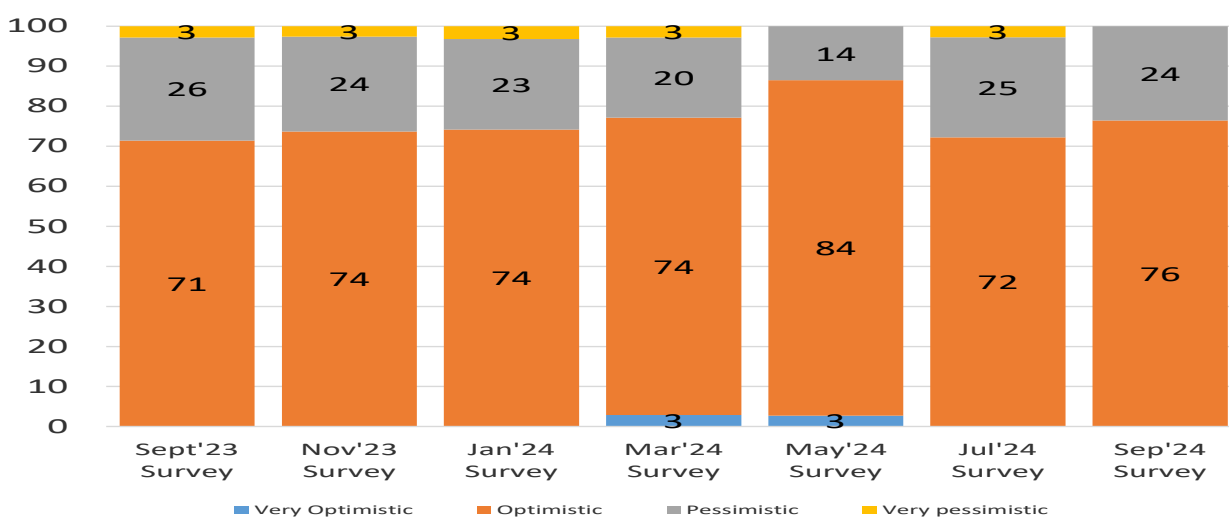
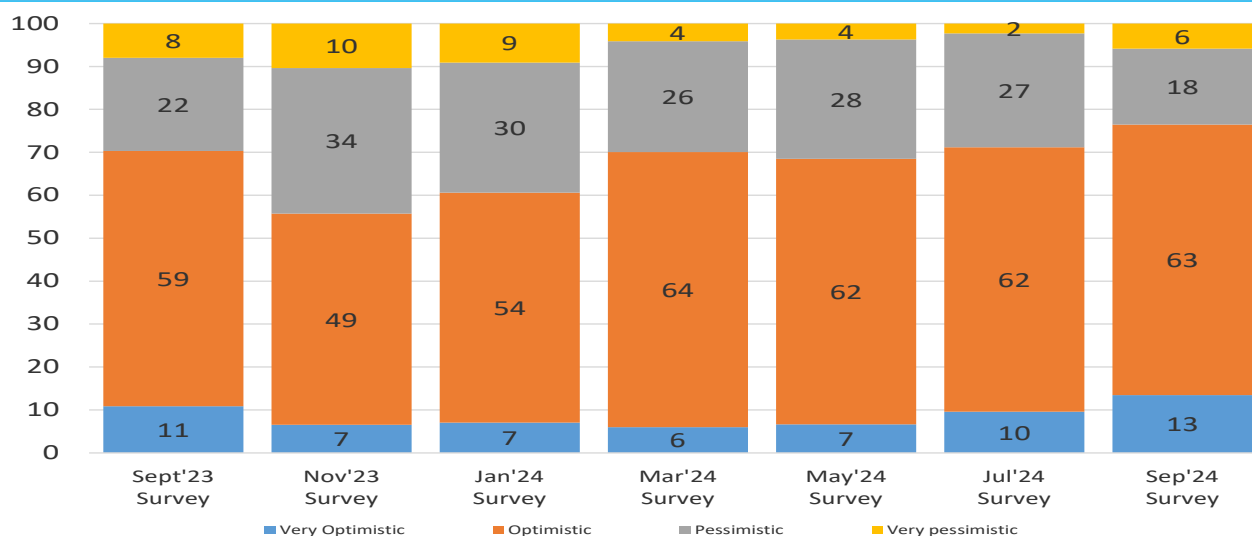


Chart 13 Optimism in growth prospects by non-bank private sector (% respondents)

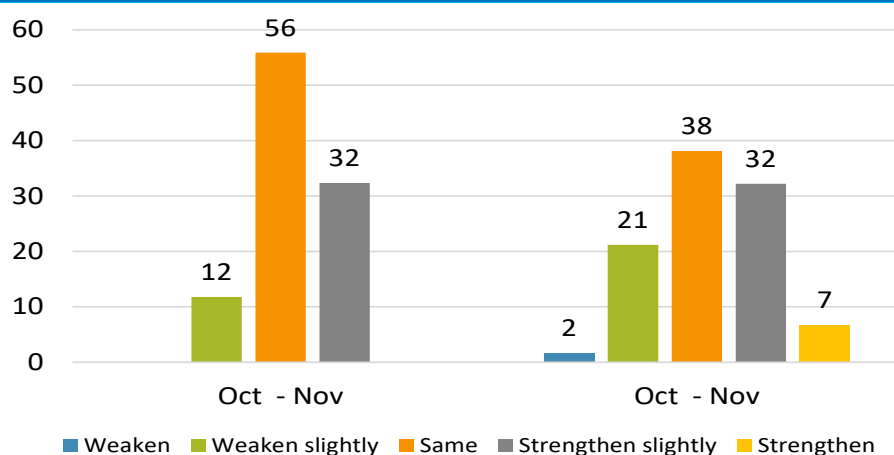


11. EXCHANGE RATE EXPECTATIONS

The Survey sought from bank and nonbank private sector firms their expectations regarding the direction of change in the exchange rate of the Shilling against the US Dollar in October and November 2024.

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 muted import demand with reduced pressure from import bill as commodity prices

including oil moderate and dollar demand from manufacturing and food imports reduces, and from strong diaspora remittance inflows expected to anchor FX supply.

12. RECOMMENDATION ON HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

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

Bank respondents indicated that faster conclusion of matters in court and moving the loan recovery cases from the lands court to the commercial court could improve the speed of resolution. Respondents also indicated that there was need for intervention by government to manage disintermediation of banks as fixed term deposit customers switch to purchase of T-bills and T bonds and thus increasing the cost of deposits, heightening aggressive competition for wholesale deposits between banks and crowding out lending to the private sector.

Non-bank respondents indicated that the timely disbursement of county government revenue allocations and the timely settlement of pending bills by central and county governments could improve liquidity by releasing cashflow into the

economy and enable MSMEs to avoid escalating their non-performing loans. This could be further enhanced by payment of VAT refunds by Government to manufacturers as accumulation of refunds was increasing operating costs of manufacturers which ends up being passed on to the consumer.

Further, non-bank respondents indicated that a favorable tax environment would enable businesses to thrive. In addition, respondents indicated that levies, licenses, regulatory compliance requirements and duplicated taxes by central and county governments were overburdening the manufacturing sector.

Furthermore, respondents suggested that lower cost of credit, lower fuel prices and electricity costs would reduce production and utility costs and thereby improve the business environment.



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