Central Bank of Kenya

Market Perceptions Survey

July 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 July 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 (May, June, and July 2024), expectations for the next three months (August, September, and October 2024), the next one year (August 2024 – July 2025), the next two years (August 2024 – July 2026), and the next five years (August 2024 – July 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 July 2024 Survey was 78 percent of the sampled institutions. The respondents comprised 36 commercial banks, 12 micro-finance banks, and 227 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 July 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 improved food supply, lower energy prices and a stable Shilling.
2. Respondents expect continued gradual increase in economic activity in August, September and October, supported by robust agricultural performance and a stable macroeconomic environment.

3. Respondents expect economic growth to remain resilient in 2024, largely anchored on increased agricultural production. However bank respondents were concerned about the uncertainty arising from the recent protests on economic growth.
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 high lending interest 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 (July, August, and September 2024), the next 12 months (July 2024 – June 2025), the next 2 years (July 2024 – June 2026), and the next 5 years (July 2024 – June 2029). Respondents expected inflation to remain stable around 5 percent in July, August and September, supported by lower food and fuel prices, and a stronger Shilling **(Table 1).**

About 90 percent of respondents expected a low and stable inflation to be supported by low food prices arising from improved food supply following good harvests after the heavy rains earlier in the year, government interventions including the fertilizer subsidy, and the unexpected short rains in June-July 2024.

In addition, 90 percent of respondents expected lower energy prices owing to expected stability in global oil prices, and moderating domestic fuel prices, high base effect from VAT on fuel in 2023, and reduced electricity costs to moderate the cost of production and transport.

Furthermore 60 percent of respondents expected the positive exchange rate pass-through effects of a stronger shilling against the US Dollar, coupled with improved supply of foreign currency to moderate the prices of imported goods.

However, about 65 percent respondents expressed concerns on possible pressures on food prices and transportation costs if the protests persist.

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	
	Sep-24	4.74	4.76	

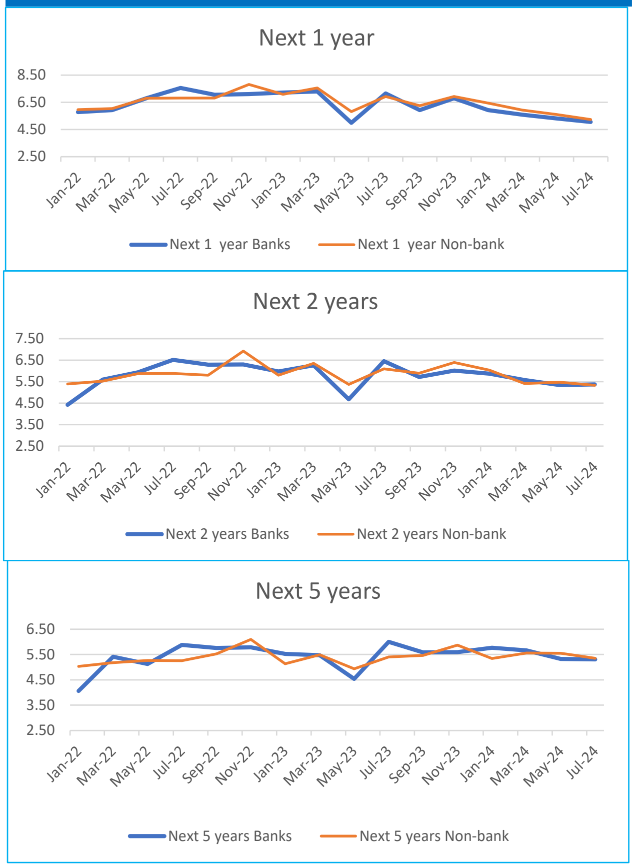
Over the medium term, the of respondents expected inflation to remain anchored close to the 5 percent target on account of expected stability in food prices, lower fuel prices, and a stable Kenya Shilling **(Chart 1).**

The survey showed that 81 percent respondents expected stable domestic food production supported by favourable weather and government efforts towards food security including fertilizer subsidy to support low and stable inflation in the medium term.

Additionally, 63 percent respondents expected reduced imported inflation from a stronger and stable currency while 56 percent respondents expected the projected stable international fuel prices to have a positive impact on transportation and production costs and as a result support low inflation in the medium term.

However, 57 percent and 43 percent respondents, respectively, remained concerned about potential headwinds from rising shipping costs due to the continued geopolitical tensions and energy price volatility arising from fluctuation of global crude oil prices in the medium term.

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



6. ECONOMIC ACTIVITY

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

Respondents expected moderate to strong activity in the next three months supported by favourable weather which is expected to keep the agriculture sector on a sustainable path with the onset of rains in October, thus increasing income for farmers, stimulating related industries, providing employment and ensuring economic growth as cited by 75 percent respondents.

In addition, 67 percent respondents, expected further support to economic activity to come from sustained low inflation resulting in reduced cost of living, increased capacity for local investments, improved consumer purchasing power and business confidence, while 58 percent respondents expected a relatively stable shilling, to lift industries and support capital expenditures in quarter 3 and quarter 4, 2024, hence boosting economic activity.

However, risks to economic activity cited by 69 percent respondents included the recent protests, and their implications on businesses with impact on the wholesale and retail trade and hotel sectors thereby slowing economic activity. About 44 percent respondents expected that the challenges in raising revenue by the government after the withdrawal of the 2024 Finance bill to affect development spending further hurting the country's growth enablers and leading to slow government activity at the start of the fiscal year. In addition, aggregate demand is expected to slow down as the government implements austerity measures.

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

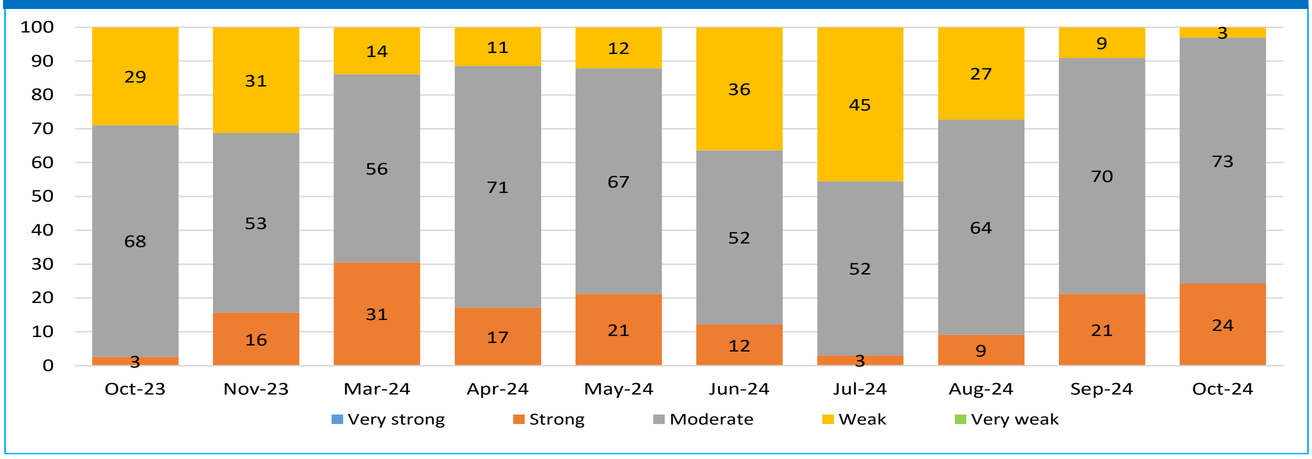
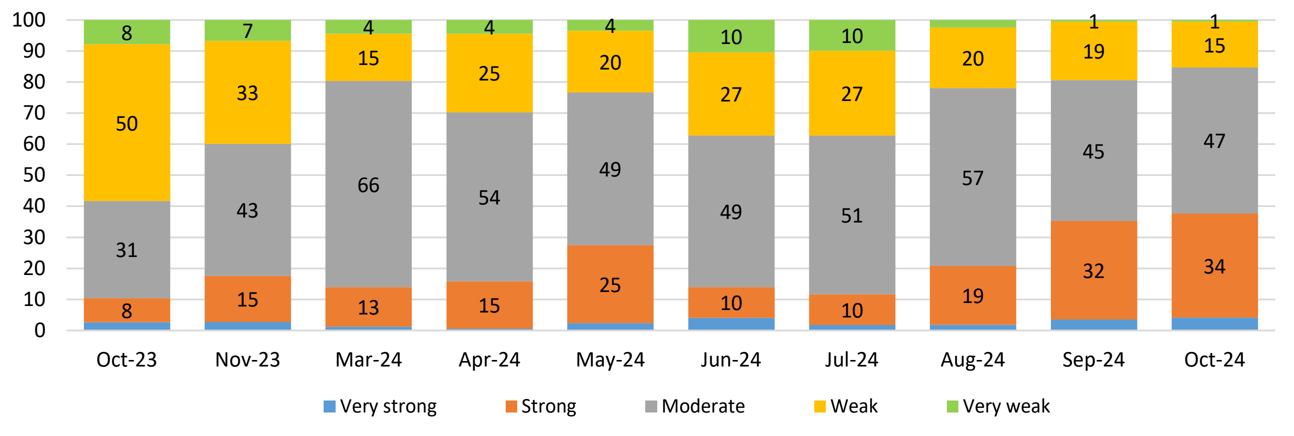


Chart 3: Expected economic activity by non-bank private sector (percent of respondents)



7. PRIVATE SECTOR CREDIT GROWTH EXPECTATIONS

7.1. Growth in private sector credit at end December 2024

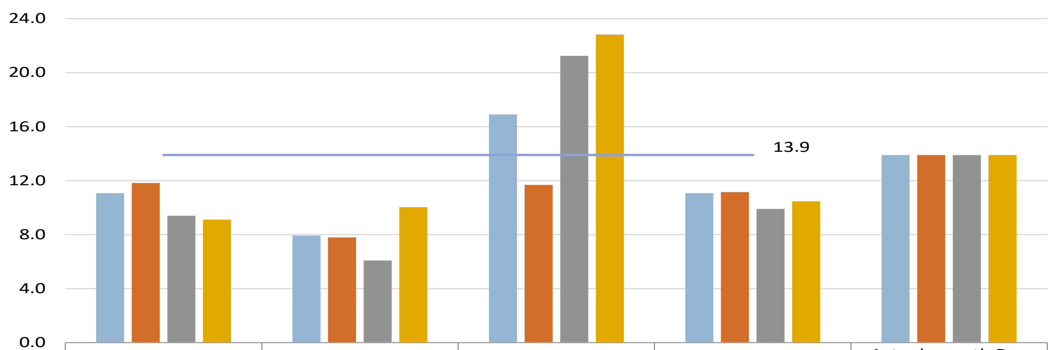
The Survey sought to find out from commercial banks by what percentage they expected to grow credit to private sector by end December 2024 compared with end December 2023. Respondents indicated expectations of lower private sector credit growth in 2024 compared with 2023 largely due to high lending interests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

About 75 percent respondents expected high interest rates to continue exerting pressure on the price of loans as banks implement risk-based pricing models thereby slowing down the pace of the uptake of new facilities and resulting in high non-performing loans and reduced business appetite.

In addition, 50 percent respondents indicated that uncertainties in the business environment due to the recent protests could delay prospective investments, and drive the banks to become more cautious in lending to the private sector to minimize the risk of default

Nevertheless, 89 percent respondents expected credit demand for working capital from key sectors, for financing of new opportunities within various sectors, and increased short- term borrowing to reduce financial constraints in the businesses to support private sector credit growth in 2024. Additionally, 33 percent respondents expected the projected economic growth to give rise to demand for credit from various key sectors in the economy and as a result boost private sector credit growth.

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



	Large banks	Medium banks	Small banks	All banks	Actual growth Dec 2023
January	11.1	7.9	16.9	11.1	13.9
March	11.8	7.8	11.7	11.2	13.9
May	9.4	6.1	21.2	9.9	13.9
July	9.1	10.0	22.8	10.5	13.9
Actual growth Dec 2023	13.9	13.9	13.9	13.9	

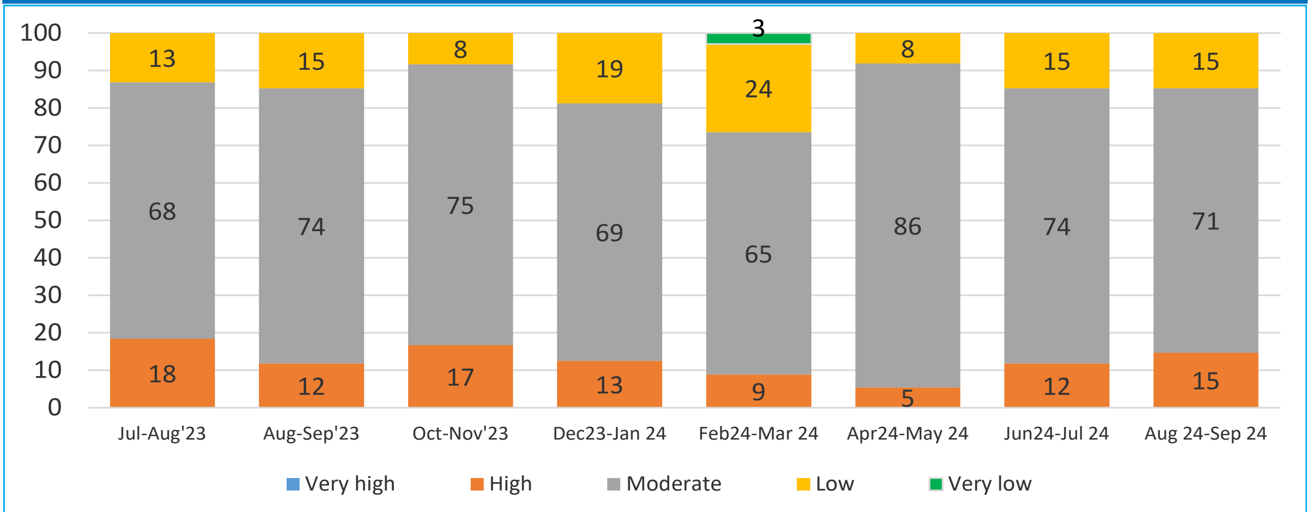
7.2. Expected demand for credit by banks

The Survey requested bank respondents for an assessment of credit demand from their perspective, during the 2 months before the MPC meeting (i.e., June and July 2024), and their expectations for August and September 2024. Respondents expected demand for credit to remain largely unchanged in August and September compared to June and July **(Chart 5).**

About 67 percent of bank respondents expected demand for credit to be driven by improvement in business activities in the third quarter after the end of the fiscal year and as businesses get ready for festive season pick-up, while 33 percent respondents expect credit demand from increased short time borrowing as businesses seek to reduce working capital and capital expenditure constraints as well as financial support to individuals and households.

However, 85 percent respondents expected uncertainties on the fiscal front, and recent protests to push most businesses into a wait and see stance before committing to investments. In addition, 40 percent respondents expected lower demand from higher cost of doing business experienced by businesses, and lower disposable income experienced by households.

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



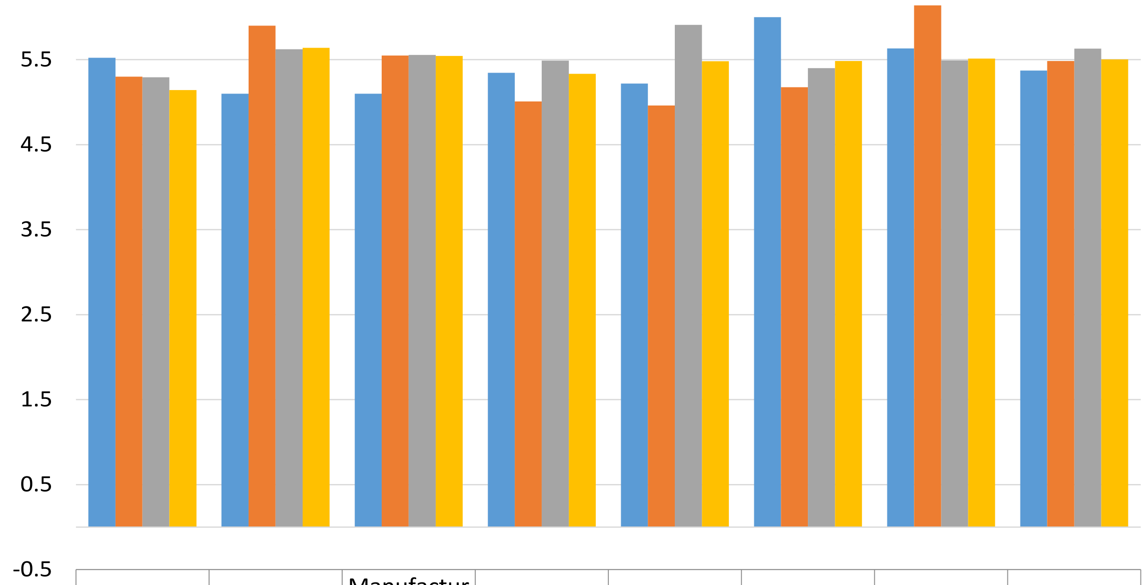
8. EXPECTED ECONOMIC GROWTH

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).**

Respondents expected 2024 economic growth to be driven by the strong performance in agriculture due to favourable weather conditions and government interventions in the sector as cited by 80 percent respondents, a relatively stable macroeconomic environment with easing inflation and a stable Shilling, cited by 65 percent respondents, and a resilient services sector, cited by 35 percent respondents.

However, risks to economic growth cited by 67 percent respondents included the taxation leading to contracting household consumption demand, private sector investment and employment while adversely affecting incentives to work and invest more. Additionally, 60 percent respondents cited the recent protests and the uncertainty around the small business and tourism space, and a wait and see attitude by investors as additional risks. High public debt was expected to constrain government spending and economic growth was also cited as a risk to economic growth in 2024 by 60 percent respondents.

Chart 6: 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
July	5.1	5.6	5.5	5.3	5.5	5.5	5.5	5.5

9. EMPLOYMENT EXPECTATIONS

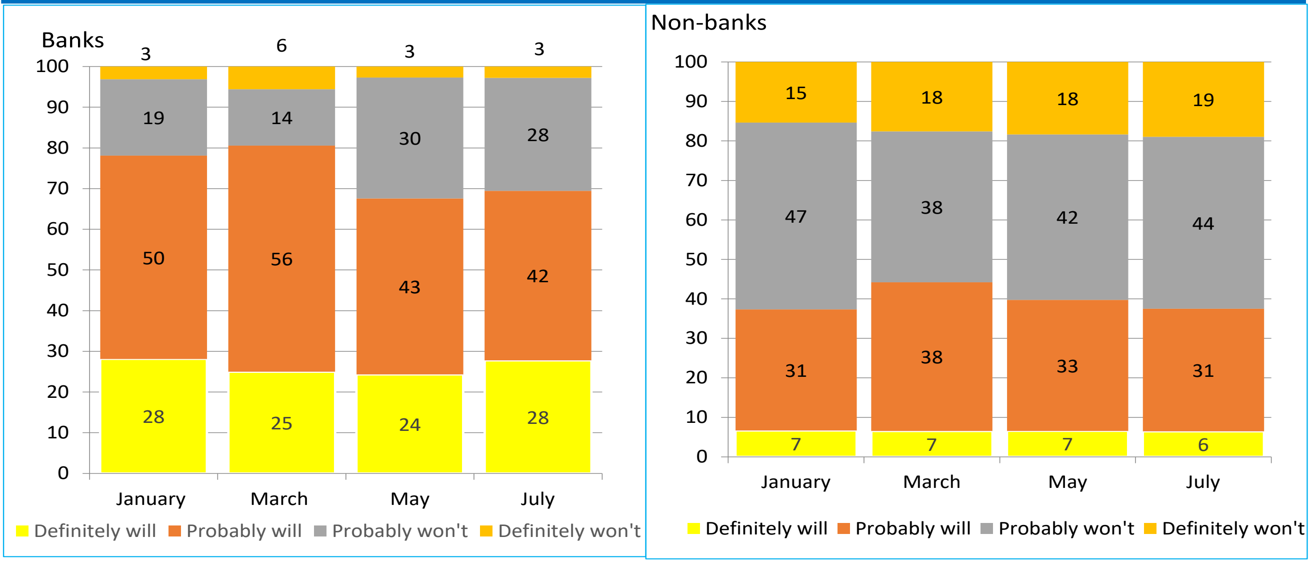
Respondents were asked about their expectations on the number of employees they expected to retain in 2024 compared with 2023. Bank and non-bank private firms showed mixed hiring expectations for 2024 **(Chart 7).**

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, hiring expectations by non-banks expectations in 2024 varied according to sector and was dependent on expected increase in business, improved demand and the need to replace exiting staff.

Nevertheless, respondents expressed concerns about the need to apply cost-cutting measures by utilizing the available resources and maximizing returns, the low and slow growth in business due to reduced incomes, reduced demand, high cost of operations and lower sales, high overheads, high wage bill and reduction in customers.

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



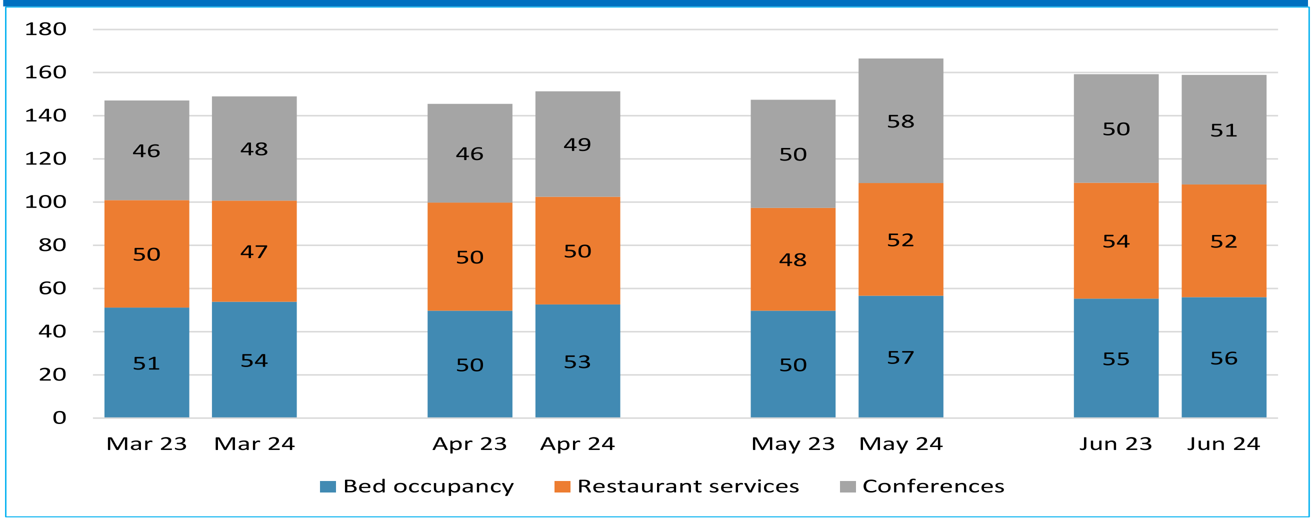
10. OPTIMISM ON THE ECONOMIC PROSPECTS

10.1. Hotel activity March – June 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 (March -June 2024) **(Chart 8).**

The survey showed similar levels of hotel activity in 2024 compared with 2023 impacted by low business levels due to low spending power in the economy, heavy rains and flooding which affected travel, cancellations in June following the street protests, and other seasonal factors

Chart 8: Hotel activities (March 2024 – June 2024)

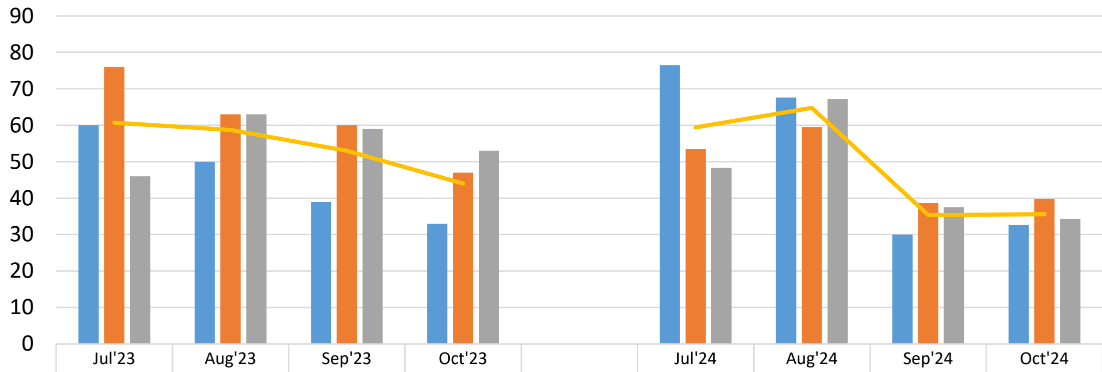


10.2. Hotel forward bookings

The Survey requested hotel respondents for forward bookings received so far for the period July to October 2024. The survey revealed improved bookings for May and June, 2024 and lower bookings for July and August 2024 compared with 2023 forward bookings**(Chart 9).**

The lower forward bookings were attributed to low business due to low purchasing power among locals, high competition and most clients not making prior bookings. Hotel respondents cited challenges such as delayed payments by central and country governments and numerous levies by county governments, as reasons affecting business during the period.

Chart 9: Hotel forward bookings (July 2024 – October 2024)



	Jul'23	Aug'23	Sep'23	Oct'23	Jul'24	Aug'24	Sep'24	Oct'24
Mombasa	60	50	39	33	76	68	30	33
Nairobi	76	63	60	47	54	60	39	40
rest	46	63	59	53	48	67	37	34
average	61	59	53	44	59	65	35	36

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 10 & 11).**

About 86 percent respondents expected stable macroeconomic conditions including low inflation, stable exchange rate and prospects of reduced interest rates improved consumer and business activities, and increase investments, to offer some relief despite fiscal headwinds. In addition, 50 percent and 23 percent respondents, respectively, were optimistic about continued strong performance of the agricultural sector on account of favourable weather patterns and government interventions, and the prospects of positive global outlook and stable international oil prices.

Risks to this optimism as cited by 77 percent respondents included uncertainties arising from the recent protests in the country which could affect trade and activities, especially within the tourism space, and slow economic growth, scare investors both local and foreign, and result in a wait and see stance or investors opting for low-risk investments.

In addition, 77 percent respondents indicated that the current taxation levels were likely to constrain growth in the medium term by destabilizing businesses, and creating an unpredictable operating environment.

Chart 10: Optimism in growth prospects by banks (% respondents)

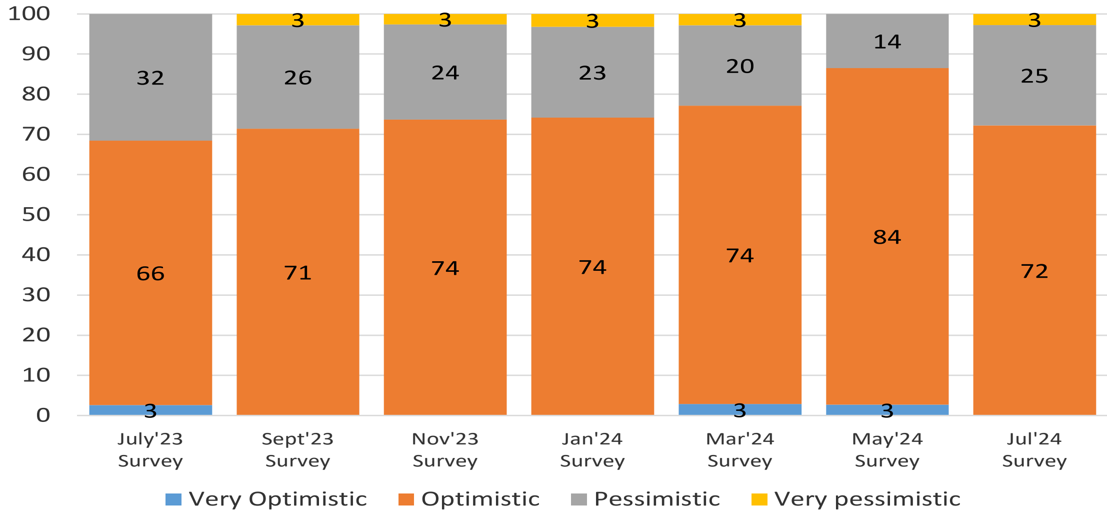
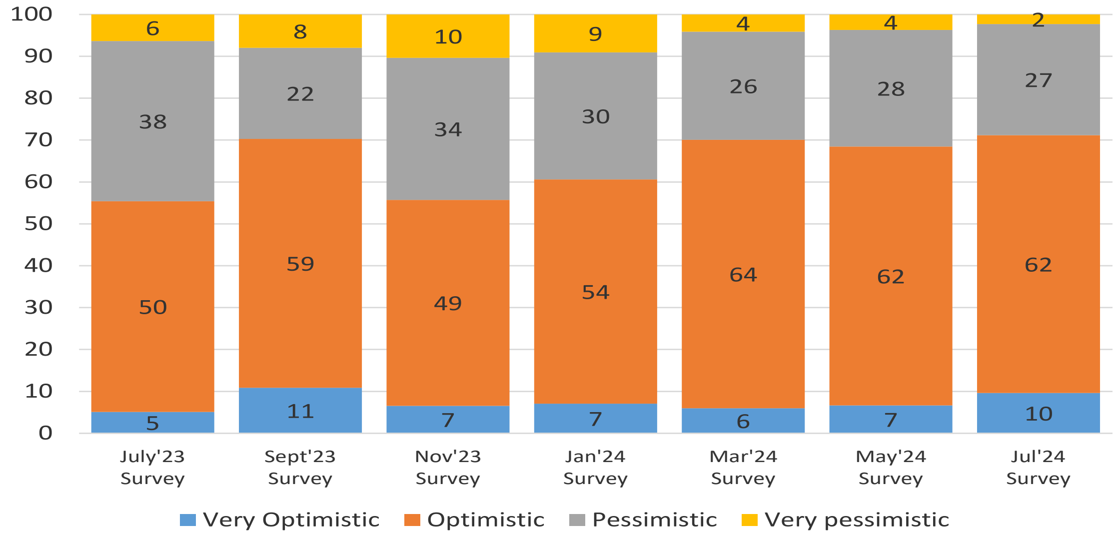


Chart 11 Optimism in growth prospects by non-bank private sector (% respondents)



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 August and September 2024. Bank respondents expected the local currency to weaken slightly while non-bank respondents expected the shilling to remain stable with a bias to strengthening in the next two months.

Respondents expected support for the Shilling to come from adequate foreign exchange reserves and positive sentiments, and improved investor confidence after payment of the Eurobond, as well as diminished short term debt sustainability concerns.

In addition, respondents expected robust and resilient diaspora remittances to anchor foreign exchange supply, and improved tourism earnings.

Expected risks to the local currency included the negative sentiment arising from the recent protests which could dent investor confidence resulting in a wait and see attitude by investors, and lead to subdued economic activities especially in the tourism sector as a risk to the local currency stability.

Furthermore, increasing demand for USD by manufacturers and importers and dividend repatriation was expected Increased demand from manufacturers and importers.

12. RECOMMENDATIONS ON HOW THE BUSINESS ENVIRONMENT COULD BE ENHANCED

The Survey asked respondents to give recommendations 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, and 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, thus increasing the cost of deposits, and heightening aggressive and unhealthy 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 would support MSMEs and reduce non-performing loans, thereby improving liquidity in the economy. Liquidity could be further enhanced by payment of VAT refunds by Government to manufacturers as accumulation of refunds was increasing operation costs of manufacturers which end 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 multiplicity of 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, thereby improve the business environment.

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