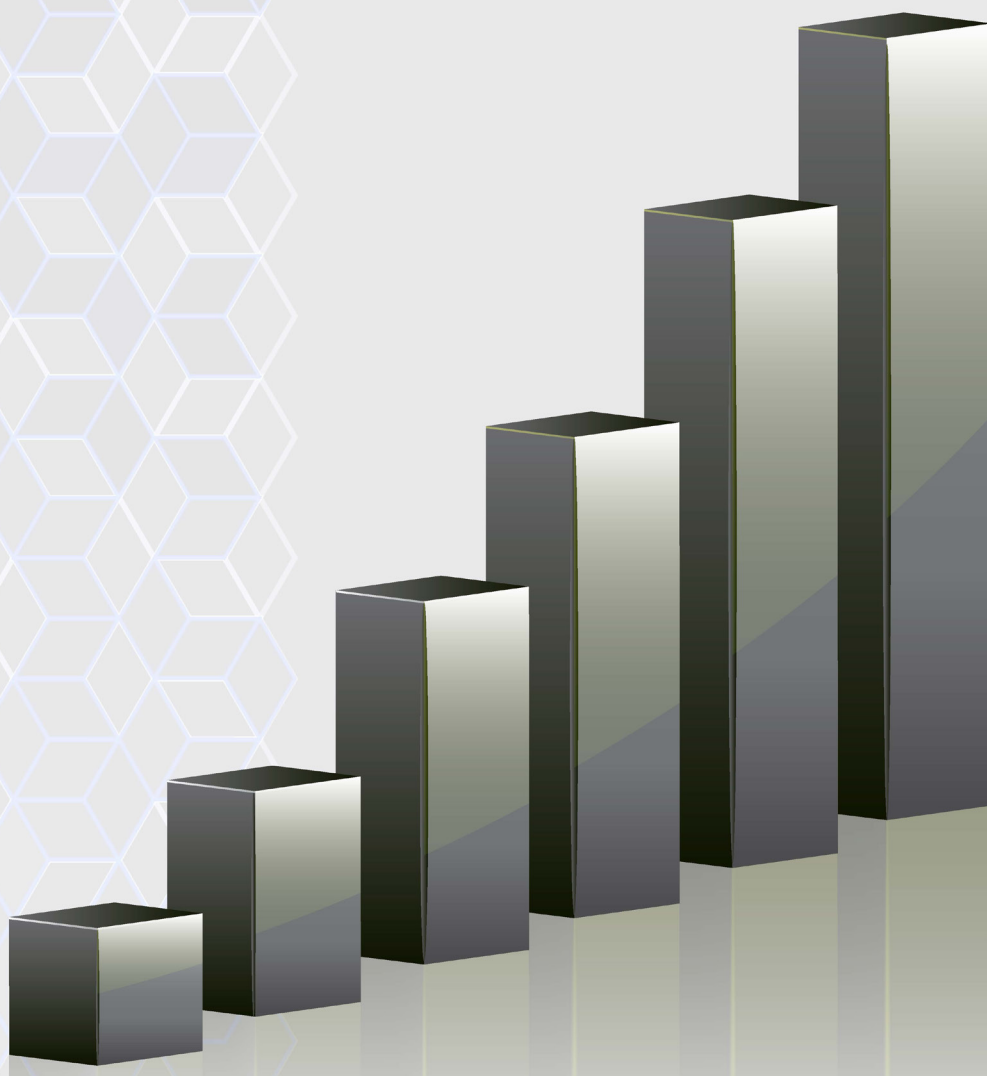


**Central Bank of Kenya**

# **Monetary Policy Committee CEO's Survey**

March 2022





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## 1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the suite of surveys (Private Sector Market Perceptions, and Survey of Hotels) conducted by the Monetary Policy Committee (MPC) every two months prior to its meetings. The objective of the Survey is to capture information on top firms' perceptions, expectations and decisions. The Survey supports key policy decisions, including monetary policy.

The Survey seeks CEO's views/perceptions on selected indicators including business confidence and optimism, current quarter business activity, and outlook for business activity in the near term. The Survey also seeks to establish the key internal and external factors that could influence the business outlook, and strategic priorities over the medium-term.

The Survey targets CEOs of key private sector organizations including members of the Kenya Association of Manufacturers (KAM), the Kenya Private Sector Alliance (KEPSA) and the Kenya National Chamber of Commerce and Industry (KNCCI). The sectors covered by the Survey include agriculture, mining and energy, manufacturing, wholesale and retail trade, tourism, hotels and restaurants, information and communications technology (ICT), media, transport and storage, real estate, pharmaceuticals, building and construction, and finance and insurance. These sectors account for over 74 percent of Kenya's GDP.

## 2. INTRODUCTION

This Survey was conducted between March 1 and 14, 2022. The Survey inquired from CEOs their levels of confidence/optimism in the growth prospects for their companies and sectors, as well as the growth prospects for the Kenyan and global economies over the next 12 months. In addition, the Survey interrogated CEOs on business activity in 2022 quarter one (Q1) compared to 2021 quarter four (Q4), and their expectations for economic activity in the second quarter of 2022 (Q2). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (March 2022 – February 2023), as well as the strategic directions and solutions to address their key constraining factors over the medium term (March 2022 – February 2025). This report provides a summary of the findings of the Survey.

## 3. SURVEY METHODOLOGY

The Survey targeted CEOs of 230 private sector firms through questionnaires administered via email, and through a direct online survey.

The respondents were from the following sectors: manufacturing (25 percent), professional services (18 percent), agriculture (14 percent), financial services (9 percent), ICT, media and telecommunications (11 percent), wholesale and retail trade (5 percent), real estate (4 percent) and tourism, hotels and restaurant (4 percent). Other sectors such as security and education accounted for three percent each or less.

Majority of the respondents (55 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses and publicly listed domestic companies. Forty three percent of the respondents had a turnover of over Ksh 1 billion in 2019. In terms of employment, 35 percent employed less than 100 employees, while 36 percent of respondents employed over 500 people. The responses were aggregated and analysed using frequencies, percentages and simple averages where appropriate.

## 4. KEY HIGHLIGHTS OF THE SURVEY

The key findings from the Survey include:

- Continued business optimism about growth prospects for their companies and sectors, largely driven by the agriculture and services<sup>1</sup> sector. This optimism was mainly attributed to improved business activity following the easing of the COVID-19 containment measures, continued government spending on infrastructure, anticipated favourable weather conditions and continued recovery from the effects of the COVID-19 pandemic with reduced infections. However, respondents highlighted concerns over possible effects of rising geopolitical tensions and increased political activity.
- Respondents reported stable business activity in 2022 Q1 compared to 2021 Q4, with businesses gradually returning to pre-pandemic levels. Firms reported steady demand following the lifting of

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<sup>1</sup>Services include professional services, hotels/restaurants, tourism, media, ICT/telecommunications, wholesale/retails, financial and real estate sectors etc

the COVID-19 restrictions, increased demand due to seasonal factors especially for professional services, and diaspora activities supporting the real estate sector. Nonetheless, the respondents indicated that purchase prices remain elevated owing to continued global supply chain disruptions and rising global inflation with higher commodity prices.

- Surveyed firms remain optimistic about business activity in 2022 Q2 and expect this to be driven by seasonal and sector-specific factors. Respondents expect that demand/orders, production volumes and sales will increase or remain at the same level for majority of respondents. This is due to pent-up demand in some sectors, improving weather conditions, and the effects of increased political activity. Respondents noted the recent reduction in electricity costs by the Government, but expect higher input prices to persist especially for imports where supply chain constraints continue to be experienced and these could be compounded by the Russia-Ukraine conflict.
- Besides increased political activity, there were concerns over the economic environment. Firms expect to mitigate constraining factors in the economic environment, through management of costs and risks, diversification of their businesses and digitisation of their operations. Firms in the manufacturing sector also intend to lobby with relevant stakeholders while firms in the services and agriculture sectors intend to increase sales and marketing.
- Consistent with previous surveys, business leaders indicated that diversification, improved efficiency/innovation and skills retention/

talent development were key internal factors that could strengthen their outlook. Externally, respondents indicated that political stability, a stable macroeconomic environment, an enabling business environment and stability of the Kenya shilling are factors that could strengthen firms' outlook in 2022.

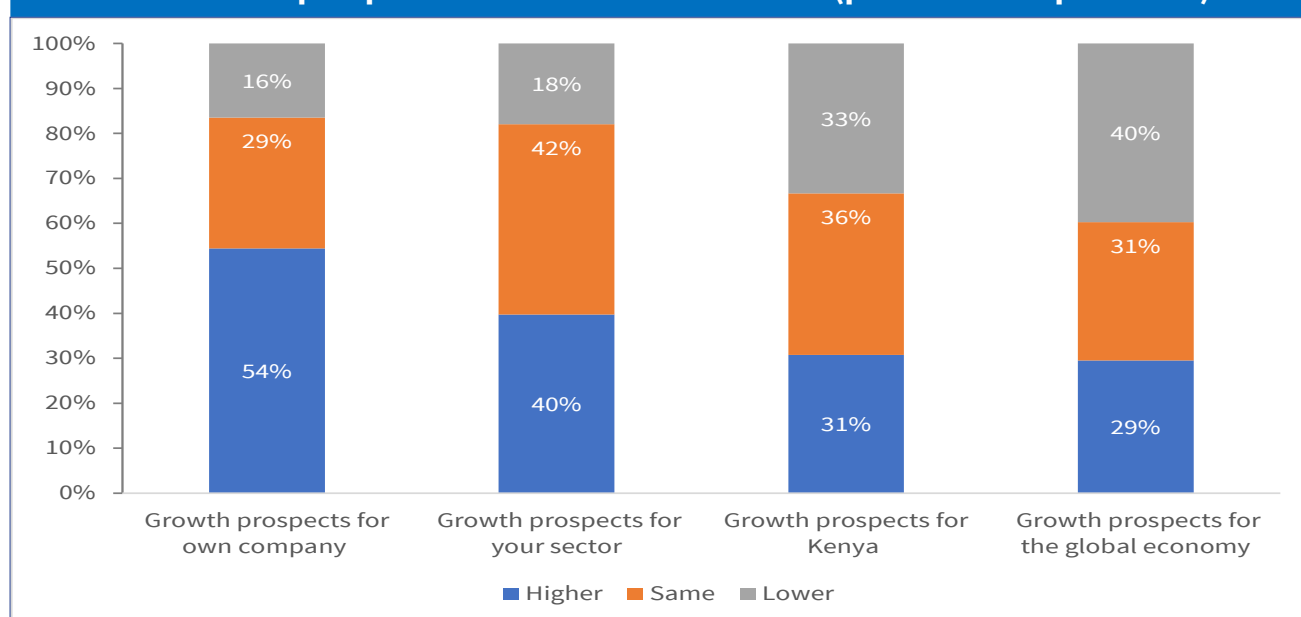
## 5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

The Survey assessed the CEO's optimism in the growth prospects for their companies, sectors, and the Kenyan and global economies over the next 12 months. Respondents were most optimistic about the growth prospects for their own companies and sectors. **(Chart 1).**

Firms continue to report month on month growth. Optimism was mainly due to improved business activity following the lifting of COVID-19 restrictions, continued business recovery from the effects of the pandemic and anticipated favourable weather conditions. Firms reported business dynamism and anticipate increased growth prospects with technological transformation majorly in the manufacturing and financial services sectors expected to drive an increase in demand for professional services. Business recovery will continue to be supported by government spending on infrastructure.

Optimism regarding growth prospects for the Kenyan and global economies remains uncertain. While risks

**Chart 1: Growth prospects over the next 12 months (percent of respondents)**



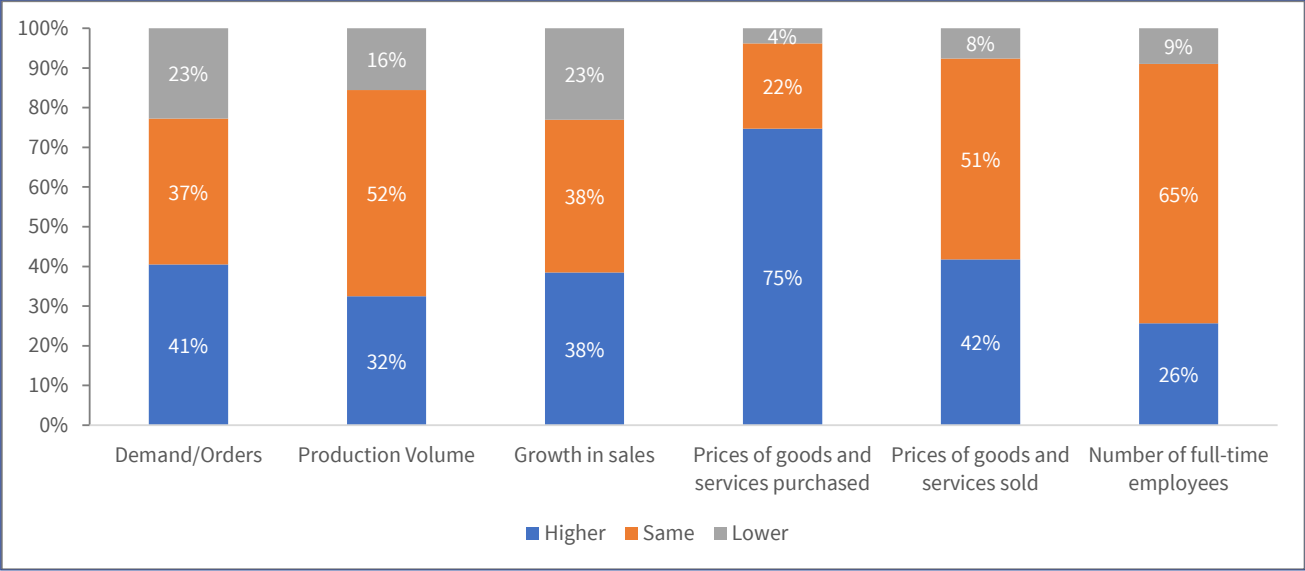
posed by the COVID-19 pandemic have moderated and the recent announcement on reduced energy costs are expected to moderate production costs, risks pertaining to increased political activity remain elevated. Further, some sectors continue to be constrained by persistent global supply chain challenges, rising commodity prices and global inflation.

On the globaleconomy, respondentscited the Russia-Ukraine conflict which represents a substantial threat for growth, driving stronger inflationary pressures and potentially eroding the gains made from the recovery from the COVID-19.

## 6. PERCEPTIONSONBUSINESSACTIVITY IN 2022 Q1 COMPARED TO 2021 Q4

The Survey sought CEO's perceptions on business activity in the first quarter of 2022 compared to the fourth quarter of 2021. The Survey indicated that business activity remains stable. Demand/orders, production volumes and sales increased or remained at about the same level for majority of respondents **(Chart 2)**. Seasonal and sector-specific factors supported demand following the easing of COVID-19

**Chart 2: Perceptions on Business Activity Indicators in 2022 Q1 Compared to 2021 Q4 (percent of respondents)**



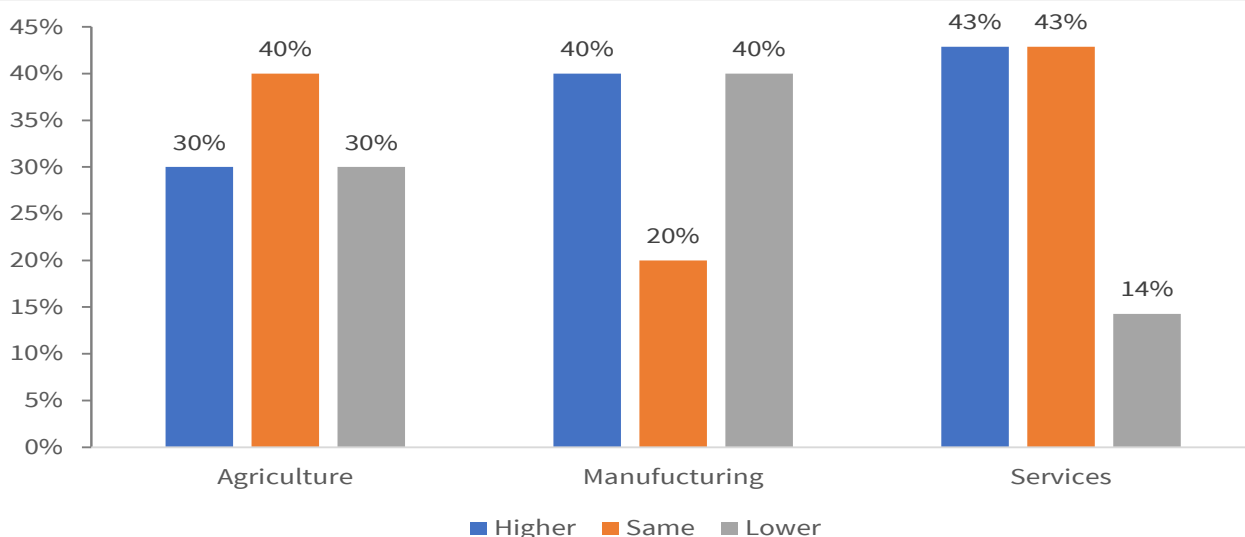
Firms in professional services reported higher seasonal demand in the first quarter of the year as did firms in the tourism sector. Firms in the real estate sector also reported increased demand supported by higher remittances and increased diaspora participation. Slight increases in sales growth were also reported for firms in the services sector as

firms continue to experience year-on-year growth and return to pre-pandemic operational levels. On the other hand, firms in the manufacturing sector reported stable/plateaued sales growth on the back of higher prices of goods and services purchased on account of persistent global supply chain disruptions and rising commodity prices.

Increased demand/orders were reported in the manufacturing sector, as activity picked up following a slowdown in the first few weeks of the year.

Demand in the agriculture sector also picked up due to seasonal factors (**Chart 3a**).

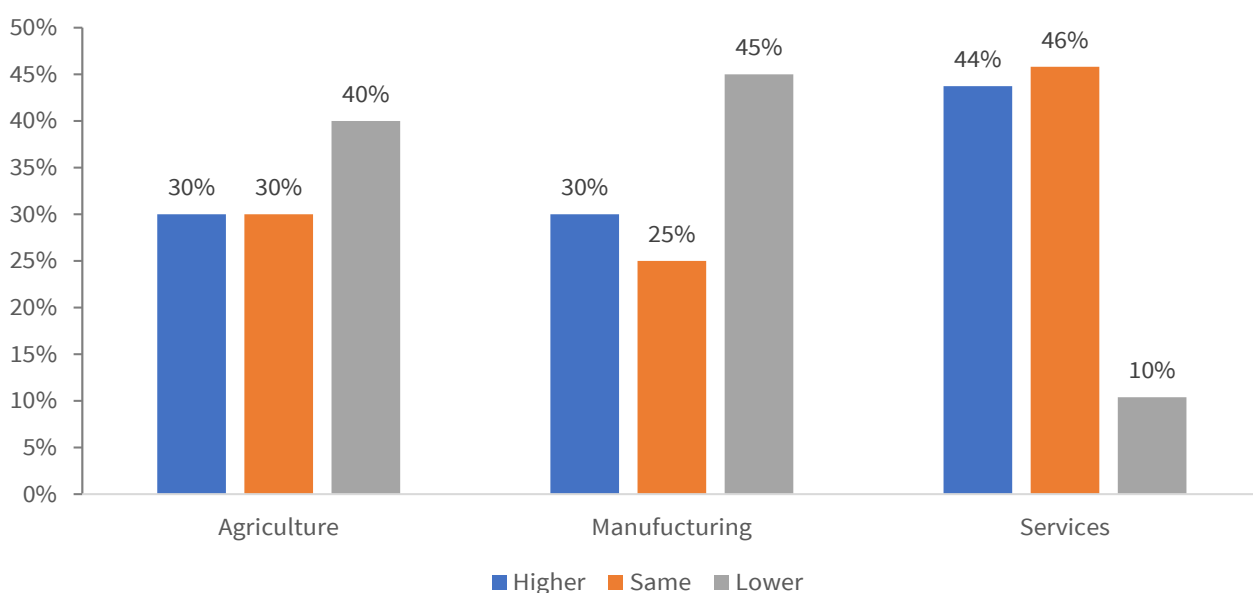
**Chart 3a: Perceptions on Demand/Orders in 2022 Q1 relative to 2021 Q4 by Sectors (percent of respondents)**



Sales growth remained steady in 2022 Q1 (**Chart 3b**). Firms attribute this to uncertainty pertaining to increased political activity, inflationary pressures

affecting consumer demand as well as seasonal factors.

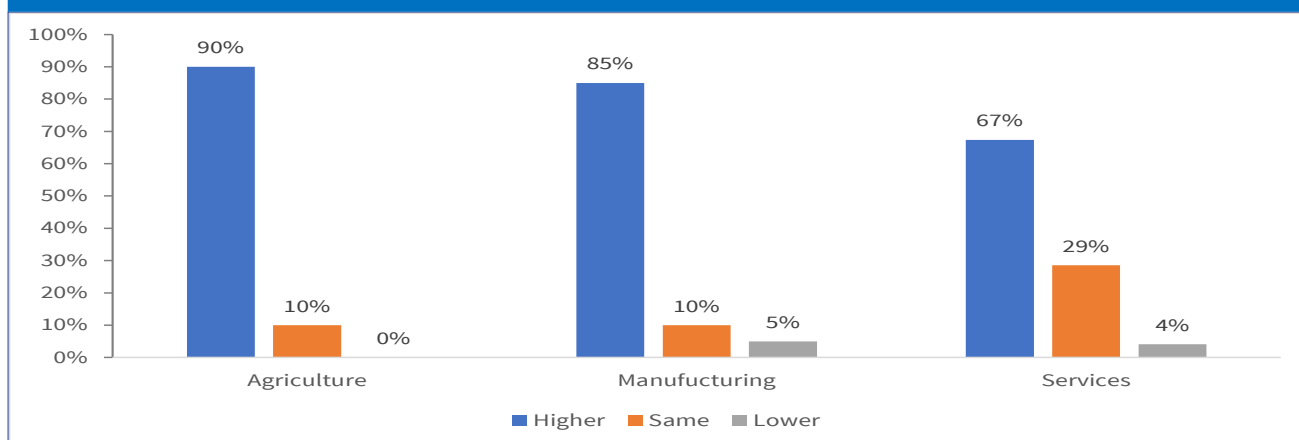
**Chart 3b: Perceptions on Sales Growth in 2022 Q1 relative to 2021 Q4 by Sectors (percent of respondents)**



Rising input prices continue to constrain production volumes, especially for firms in the agriculture and manufacturing sectors where supply chain

constraints and cost of raw materials remain a big concern for majority of respondents (**Chart 4**).

**Chart 4: Perceptions on Purchase Prices in 2022 Q1 compared to 2021 Q4 by Sectors (percent of respondents)**



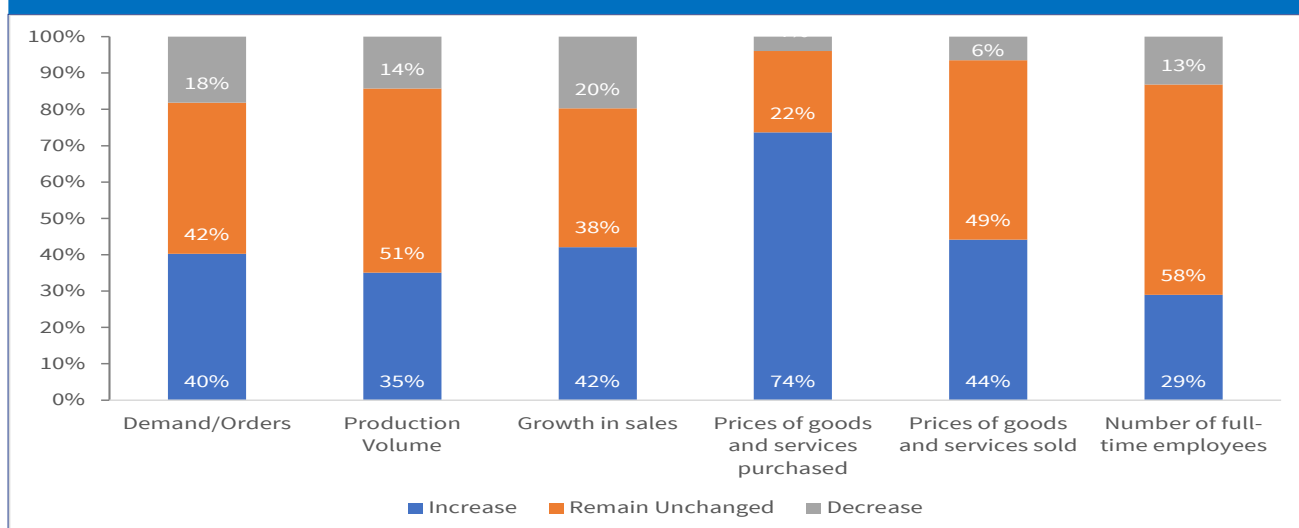
## 7. OUTLOOK FOR BUSINESS ACTIVITY IN 2022 Q2 COMPARED TO 2022 Q1

The Survey sought CEO's expectations of business activity in the second quarter of 2022 relative to the first quarter of 2022. Most CEO's expect business activity in 2022 Q2 to be driven by seasonal factors with an uptick in business activity in specific sectors (**Chart 5**).

Demand/orders, production volumes, and number of fulltime employees are expected to remain at the same level for majority of firms. The easing of COVID-19 restrictions and continued resumption of normal operations will support growth in sales especially for manufacturing sector firms, as firms clear up pent-up demand in the second quarter of 2022. Anticipated favourable weather in the

second quarter is expected to boost agricultural production. The prices of goods and services sold will remain elevated as supply chain bottlenecks and high input costs persist. The scope for passing this on to consumers in the form of higher prices of goods and services sold will however remain limited as firms foresee those higher costs will negatively impact demand. Firms continue to be concerned that business activity will be affected by increased political activity as investors adopt a 'wait and see' approach to investments. On the brighter side, most firms remain optimistic that business activity will quickly pickup shortly after the conclusion of the elections.

**Chart 5: Views on Outlook on Business Activity Indicators in 2022 Q2 compared to 2022 Q1 (percent of respondents)**



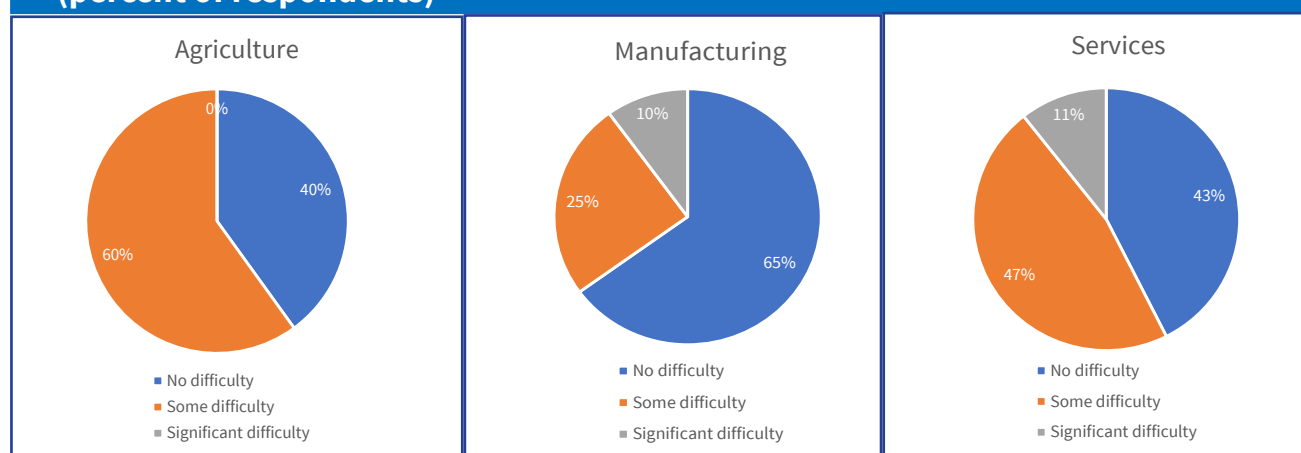


In terms of operating capacity, the Survey findings show that most respondents were operating below capacity and could increase production if there was an unexpected increase in demand/orders (**Chart 6**). The strength of these firms lies in their businesses being well capitalized, therefore being able to mobilise resources not only in Kenya and East Africa but also beyond if necessary. The availability of trained personnel in the market was also a factor that could support firms to expand quickly.

Firms also reported agility developed out of the COVID-19 pandemic experience as a strength that

could support them in expanding quickly. Firms which reported possible difficulty in expanding cited financing challenges and tight liquidity conditions in the market. Other reasons cited include depressed/flat consumer demand, global supply chain disruptions now compounded by the Russia-Ukraine conflict, shipping challenges and increased operating costs which hinder operating capacity. Additionally, firms highlighted the cost of raw materials and pressure from imported goods as factors that hinder their ability to expand.

**Chart 6: Potential Level of Difficulty in Meeting Increased Demand or Sales (percent of respondents)**

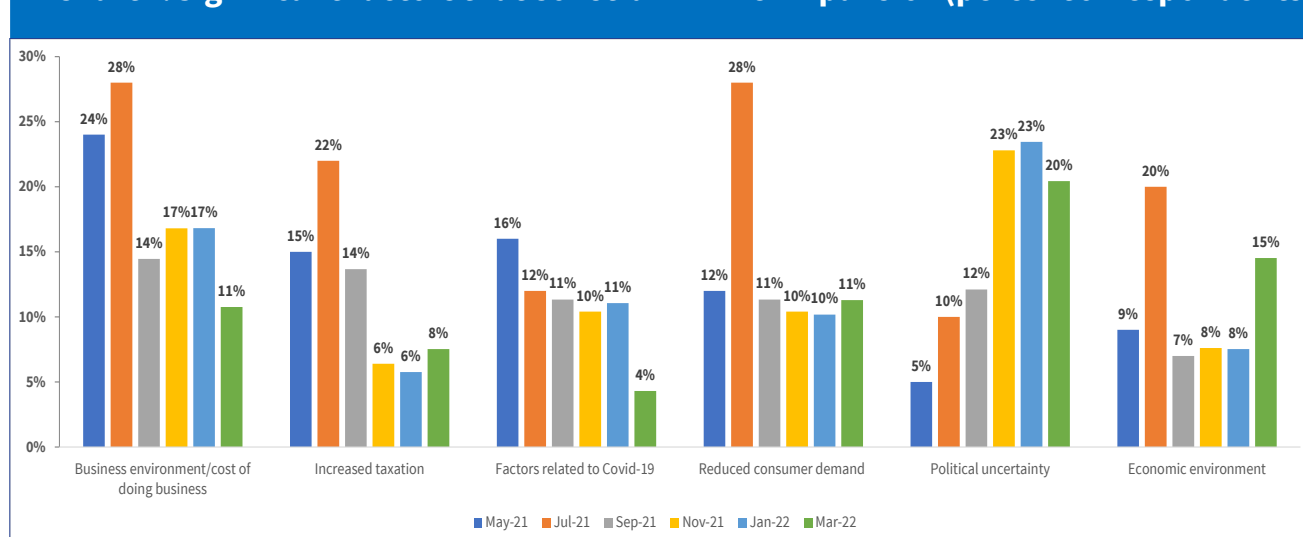


## 8. FACTORS CONSTRAINING EXPANSION OVER THE NEXT 12 MONTHS

The Survey sought to establish from the CEOs factors that could constrain the growth and/or expansion of firms over the next one year. The results show that the concerns over increased political uncertainty have edged up as have concerns over reduced consumer demand and the economic environment.

On the latter, firms are particularly concerned about the stability of the Kenyan Shilling and inflation. The reduction in the number of infections experienced in the last few weeks has however resulted in COVID-19 becoming a lesser concern (**Chart 7**).

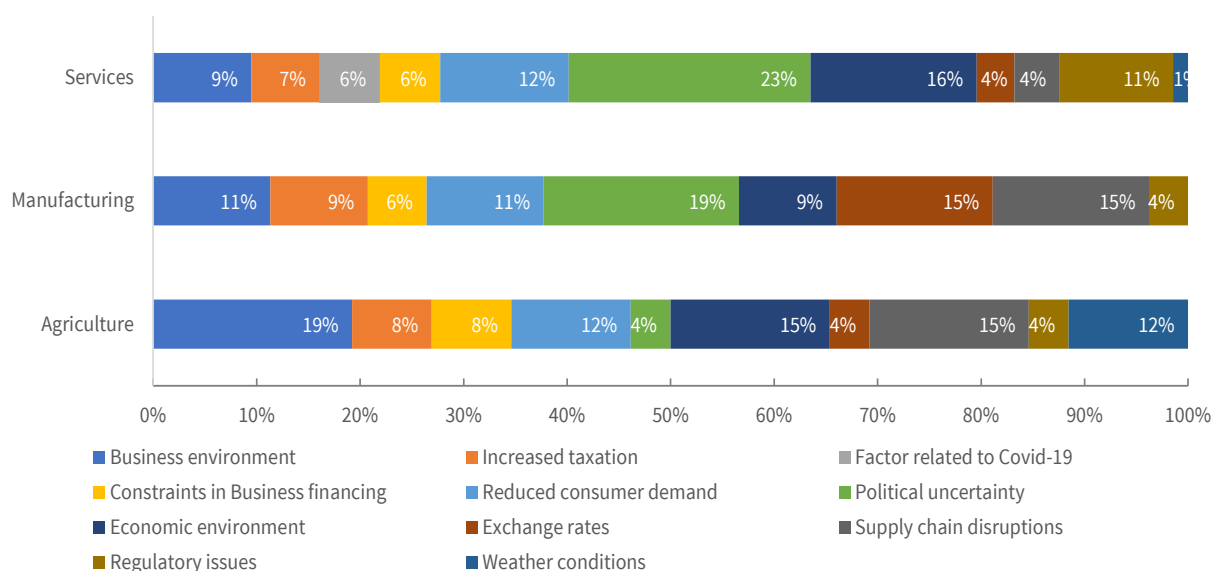
**Chart 7: Significant Factors that Constrain Firms' Expansion (percent of respondents)**



Increased political uncertainty was of greater concern for firms in the services and manufacturing sectors, while for firms in agriculture, supply chain disruptions were the greatest concern (**Chart 8**).

Supply chain disruptions and exchange rates were also of concern for businesses in the manufacturing sector.

**Chart 8: Significant Factors that Constrain Firms' Expansion by Sectors (percent of respondents)**

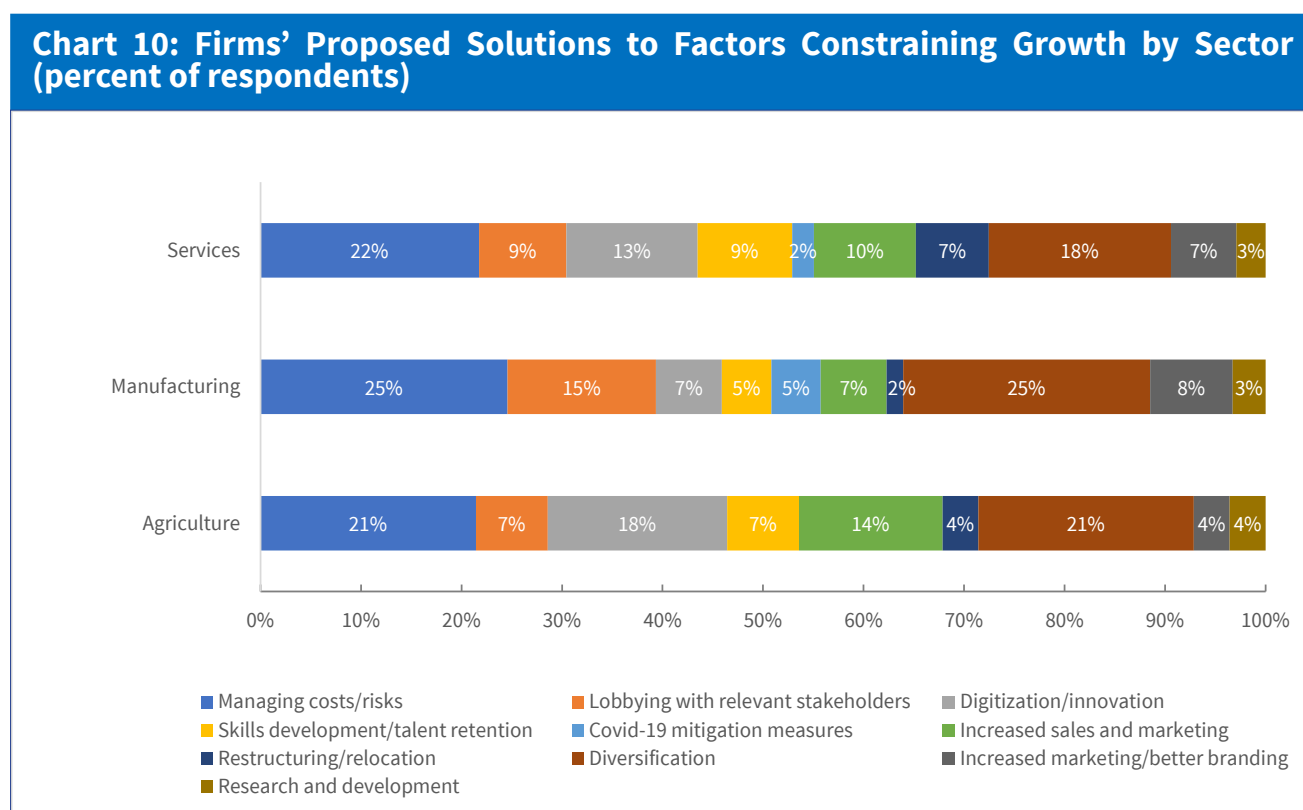


To mitigate the factors constraining growth/expansion, firms proposed various solutions: management of costs and risks, diversification as well as digitization (**Chart 9**).

**Chart 9: Firms' Proposed Solutions to Factors Constraining Growth (percent of respondents)**



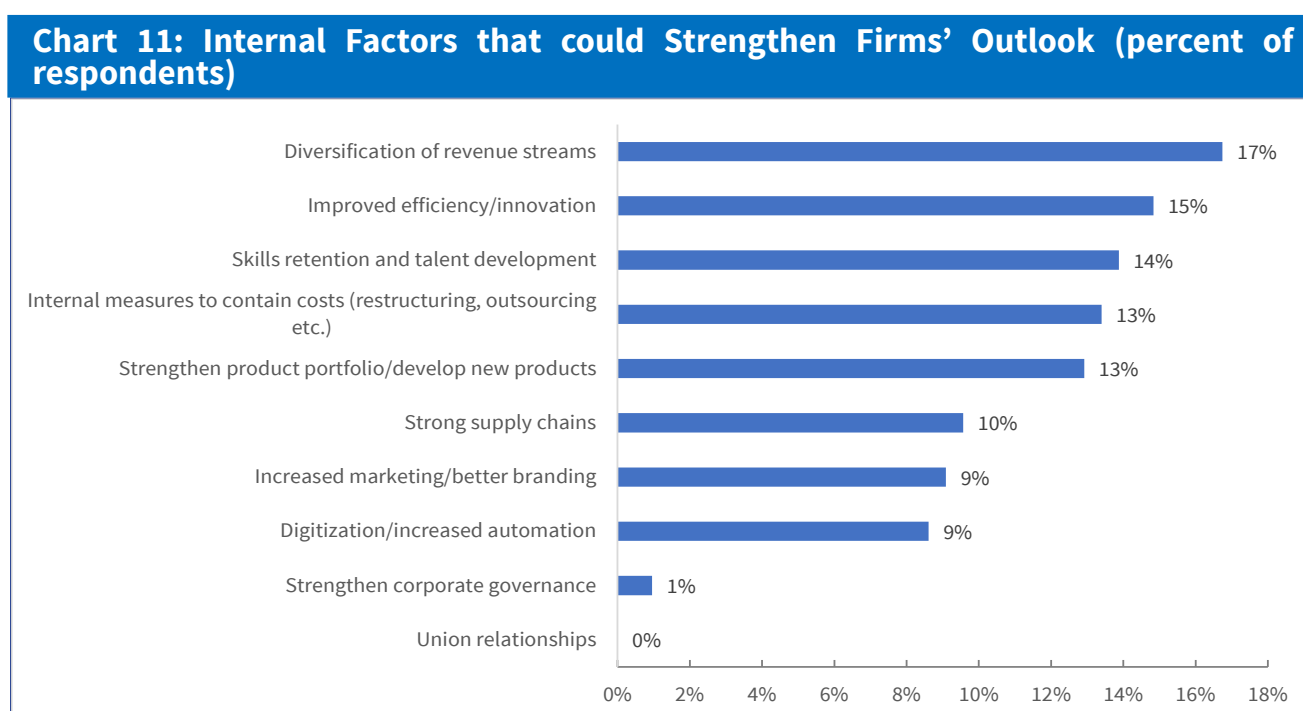
Other important mitigating factors for respective sectors were increased sales and marketing (services sector), lobbying with relevant stakeholders (manufacturing sector), and increased sales and marketing (agriculture sector) **(Chart 10)**.



## 9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

The Survey sought to establish internal and external factors that could strengthen firms' outlook over the next 12 months. The Survey results highlighted diversification of revenue streams as the main internal factor that could strengthen outlook across

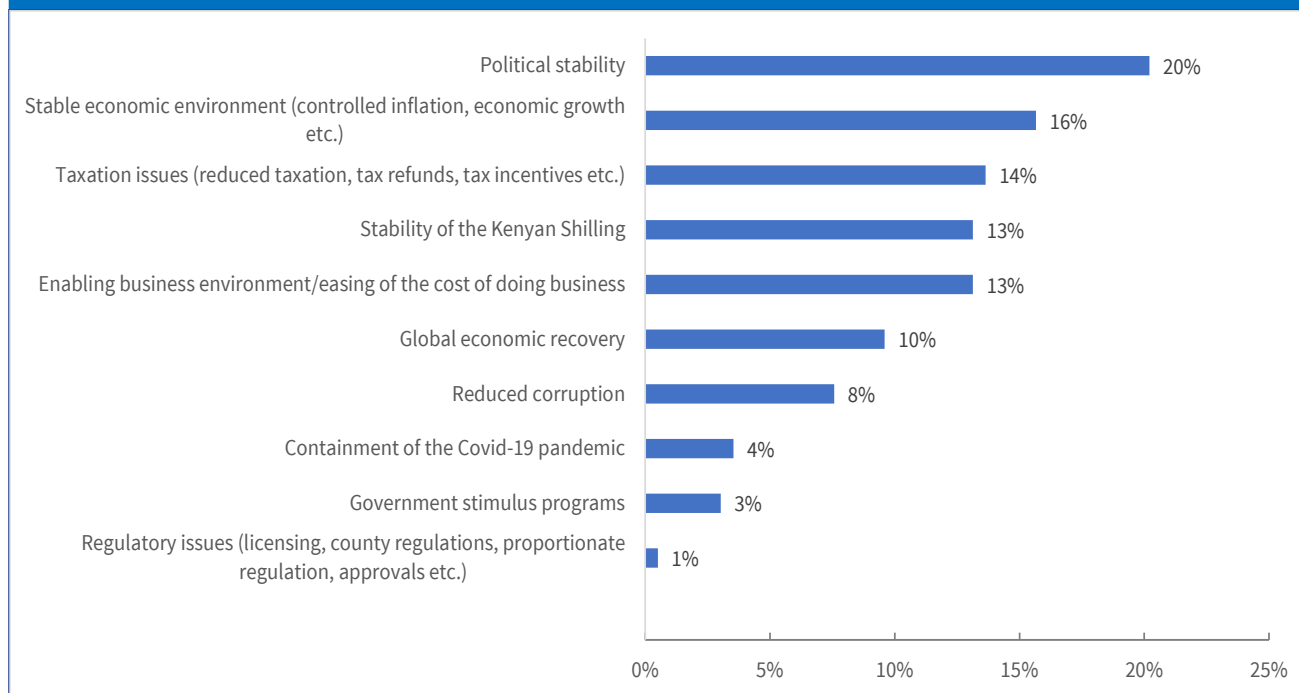
all sectors. Improved efficiency and skills retention/talent development also continue to be important internal factors to strengthen outlook for majority of firms **(Chart 11)**.



Political stability, a stable economic environment and taxation issues were identified as top external factors across all sectors that businesses anticipate

could strengthen their company outlook over the next 12 months **(Chart 12)**.

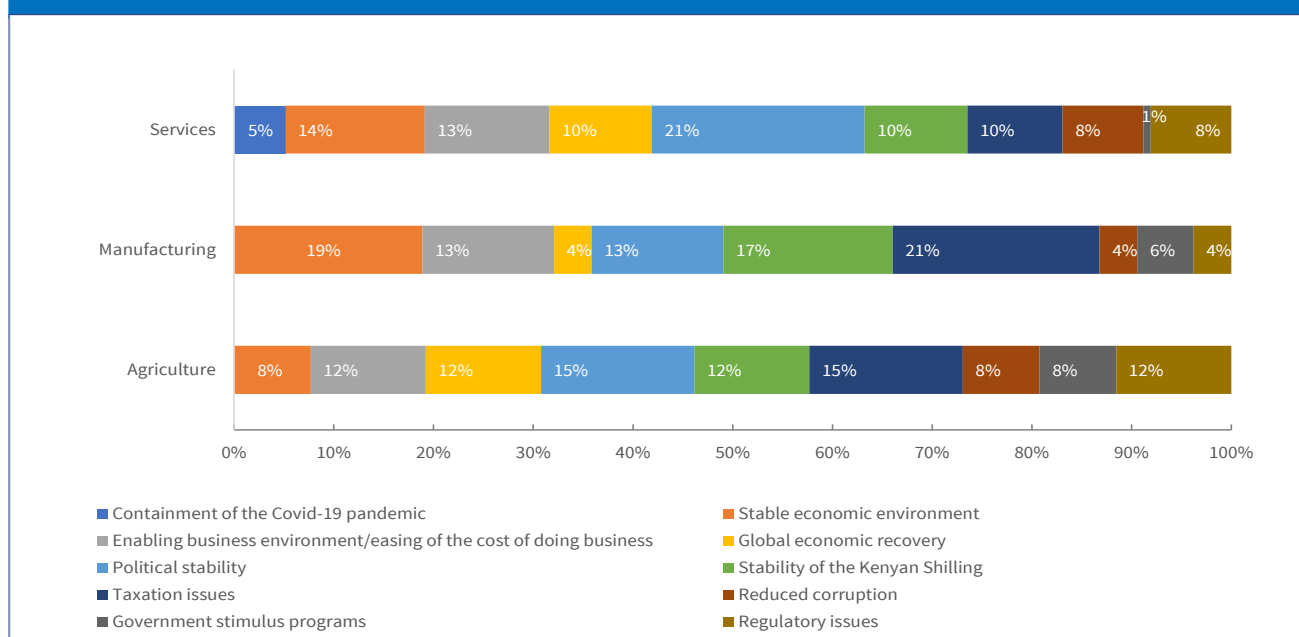
**Chart 12: External Factors that could Strengthen Firms' Outlook (percent respondents)**



Reduced taxation was identified as a top factor that could strengthen firms' outlook for firms in the agriculture and manufacturing sectors. On the other hand, political stability was the most significant

factor for services sector firms. Stability of the Kenyan Shilling was identified as an important factor for all sectors **(Chart 13)**.

**Chart 13: External Factors that could Strengthen Firms' Outlook by Sectors (percent of respondents)**



## 10. TOP COMPANY STRENGTHS

The Survey required respondents to indicate their company's strengths. Firms' top strengths have remained consistent since the inaugural Survey in March 2021. Firms reported trusted brands/product

quality, technical capabilities and skilled workforce as well as customer centricity as their top strengths. Equally important are company values and their history/length of presence in the market (**Chart 14**).

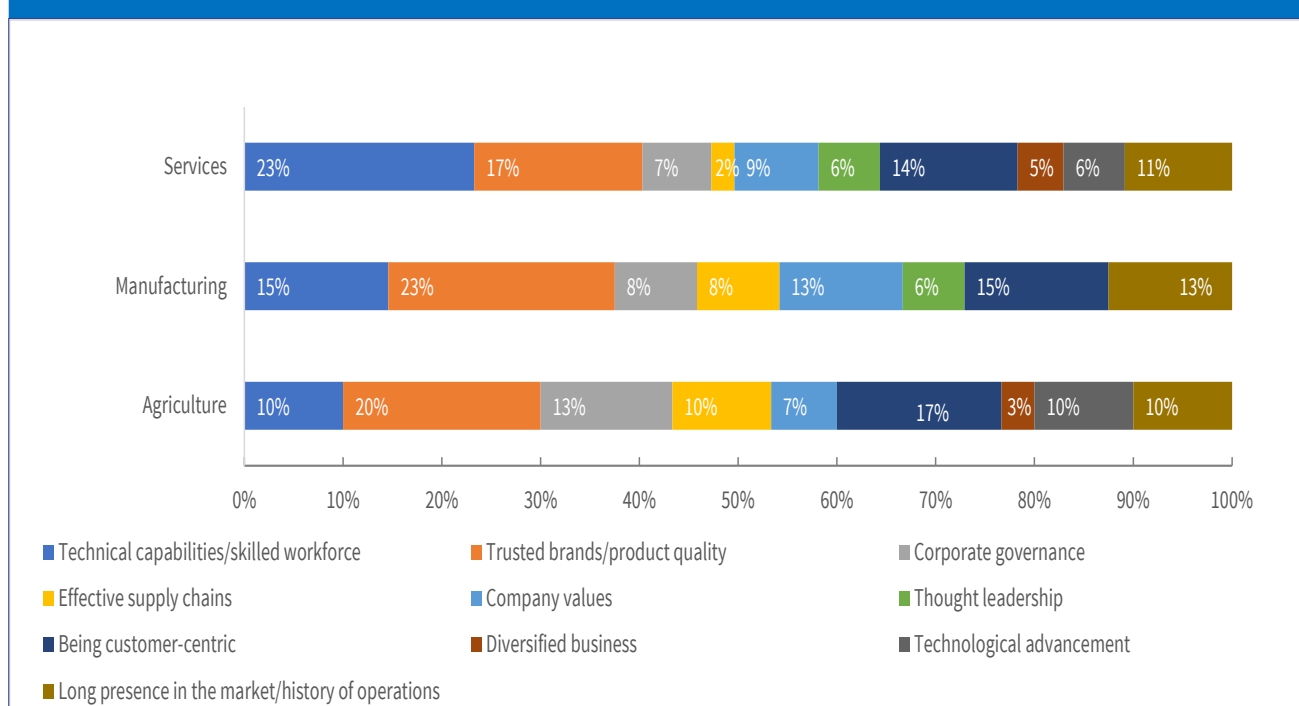
**Chart 14: Firms' Top Strengths (percent of respondents)**



At the sector level, besides technical capabilities and trusted brands/product quality, customer centricity and long presence in the market were significant

factors for firms in the services and manufacturing sectors, while customer-centricity was a key strength for the agriculture sector firms (**Chart 15**).

**Chart 15: Firms' Top Strengths by Sectors (percent of respondents)**

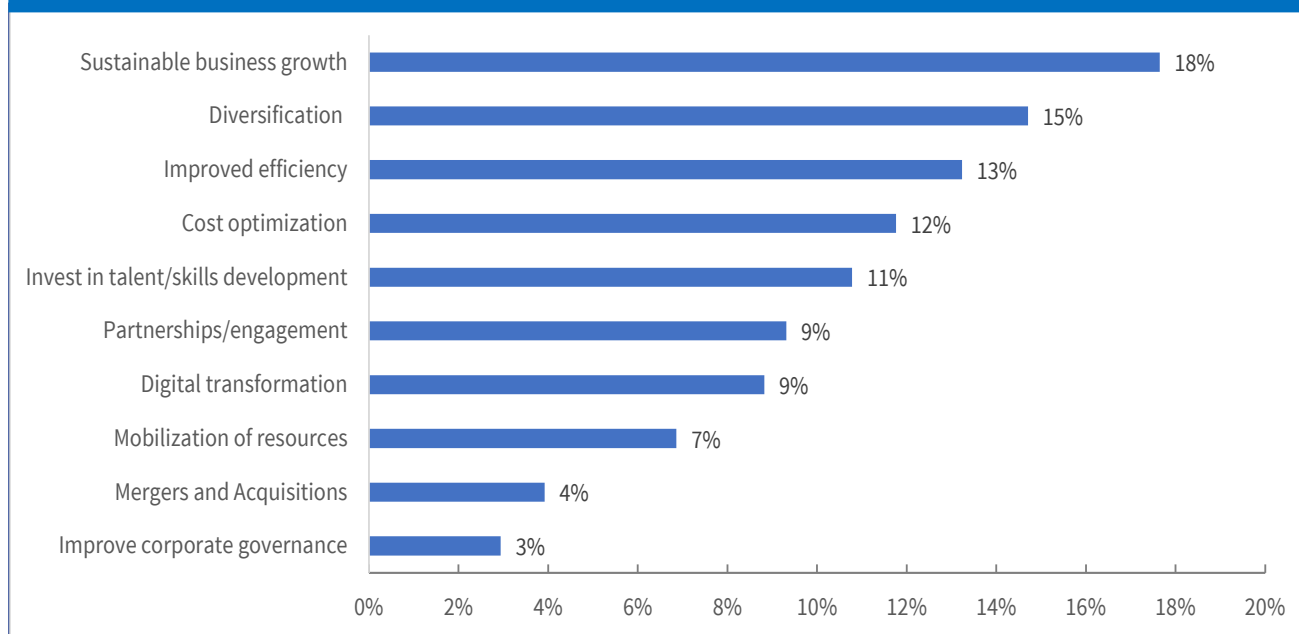


## 11. STRATEGIC PRIORITIES

The Survey concluded by enquiring of respondents their strategic priorities over the next three years.

The Survey revealed that firms' strategies over the medium-term have remained consistent since March 2021. Businesses plan to diversify, improve efficiency and grow their businesses sustainably (**Chart 16**).

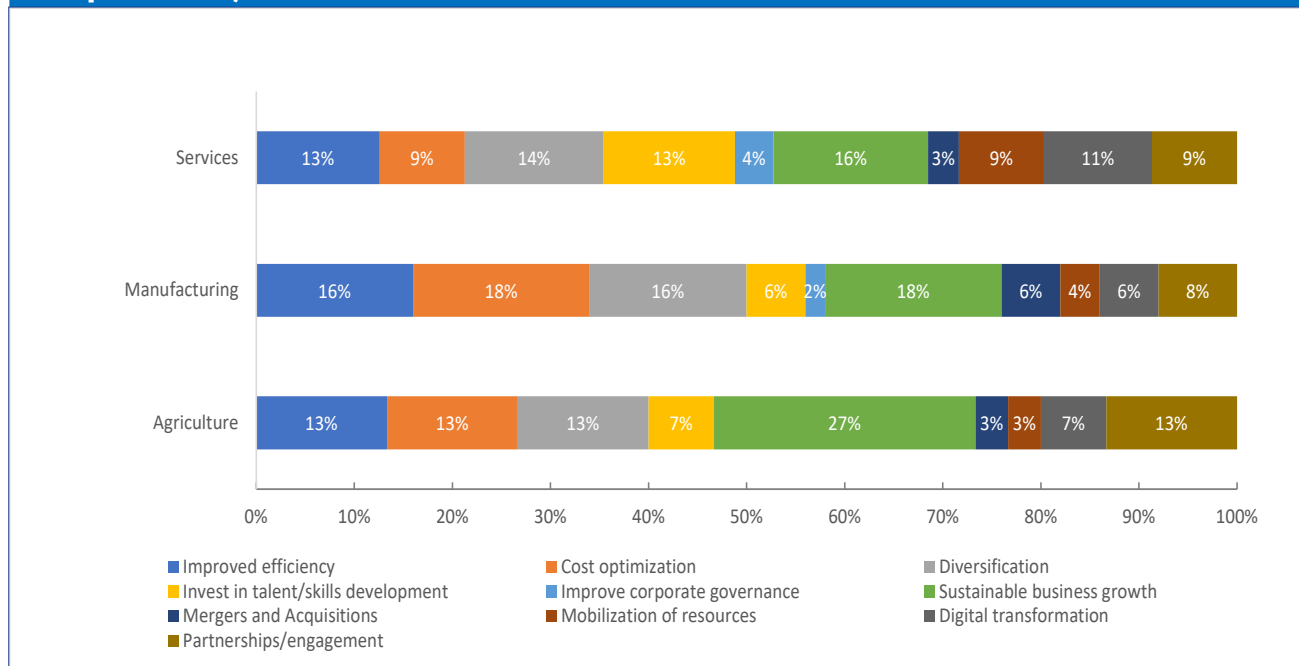
**Chart 16: Firms' Strategic Priorities over the Next Three Years (percent of respondents)**



Other than the common factors identified across all sectors, firms in the services sector identified digital transformation as another important factor.

Engaging in partnerships was an equally important priority for the manufacturing and agricultural sectors (**Chart 17**).

**Chart 17: Firms' Strategic Priorities over the Next Three Years by Sector (percent of respondents)**



## 12. CONCLUSION

The March 2022 Survey revealed continued business optimism about company and sectoral growth prospects, largely driven by the agriculture and services sector. This optimism was mainly attributed to improved business activity following the easing of the COVID-19 containment measures, continued government spending on infrastructure, anticipated favourable weather conditions and continued recovery from the effects of the COVID-19 pandemic. However, respondents highlighted concerns over possible effects of rising geopolitical tensions and increased political activity.

Respondents reported stable business activity in 2022 Q1 as compared to 2021 Q4, with businesses gradually returning to pre-pandemic levels. Seasonal factors and the lifting of the COVID-19 restrictions have supported steady demand. Nonetheless, purchase prices remain elevated owing to continued global supply chain disruptions, rising global inflation and higher commodity prices.

Business activity in 2022 Q2 is expected to be driven by seasonal and sector-specific factors, with demand/

orders, production volumes and sales expected to increase or remain at similar levels for majority of respondents. Higher input prices are however expected to persist especially for imports where supply chain constraints continue to be experienced. These constraints are likely to be compounded by the Russia-Ukraine conflict.

Besides increased political activity, respondents were concerned about the economic environment. Firms expect to mitigate constraining factors in the economic environment, through management of costs and risks, diversification of their businesses and digitisation of their operations.

Consistent with previous surveys, business leaders indicated that diversification, improved efficiency/innovation, sustainable business growth were key internal factors that could strengthen their outlook. Externally, respondents indicated that political stability, a stable macroeconomic environment, an enabling business environment and stability of the Kenya shilling are factors that could strengthen firms' outlook in 2022.

## ANNEX 1: SURVEY QUESTIONNAIRE

### GENERAL INFORMATION

i) What is your **title (Job Role)**?

ii) Please provide your **contact information**

Email: .....

iv) What is the **size** of your company in terms of

a) The number of employees	b) Annual turnover in 2019?
Less than 100 <input type="checkbox"/>	Less than KSh 250 million <input type="checkbox"/>
Between 100 – 250 <input type="checkbox"/>	Between KSh 250 million and KSh 750 million <input type="checkbox"/>
Between 251 – 500 <input type="checkbox"/>	Between KSh 751 million and KSh 1 billion <input type="checkbox"/>
Between 501 – 1000 <input type="checkbox"/>	Between KSh 1 billion and KSh 5 billion <input type="checkbox"/>
Over 1000 <input type="checkbox"/>	Over KSh 5 billion <input type="checkbox"/>
Other (please specify)	Other (please specify)

v) What is the ownership structure of your company? Select one

Privately-owned Domestic	<input type="checkbox"/>
Privately-owned Foreign	<input type="checkbox"/>
Publicly listed Domestic	<input type="checkbox"/>
Publicly listed Foreign	<input type="checkbox"/>
Government-owned	<input type="checkbox"/>

Other (please specify)

.....



**vi) What is the main sector that your company operates in? Select one**

Agriculture ☐

Manufacturing ☐

ICT & Telecommunications ☐

Media ☐

Wholesale and Retail Trade ☐

Transport and Storage ☐

Real Estate ☐

Tourism ☐

Professional Services ☐

Other (please specify)  
.....

**vii) How long has your company been operating in Kenya?**

Less than 1 year ☐

1-5 years ☐

6-10 years ☐

11-15 years ☐

16-20 years ☐

21-30 years ☐

Over 30 years ☐

A. BUSINESS CONFIDENCE/OPTIMISM				
1.	In terms of <b>growth prospects</b> , please indicate your level of confidence in the following <u>over the next 12 months</u> , compared to the current situation. (Please select one option per statement).			
		Higher	Same	Lower
	Growth prospects for your company			
	Growth prospects for your sector			
	Growth prospects for Kenya			
	Growth prospects for the global economy			
	Reasons for these views on growth prospects?			
B. OUTLOOK ON BUSINESS ACTIVITY				
2.	a) How would you rate the following performance indicators during <b>Quarter 1, 2022 (January – March)</b> compared with <b>Quarter 4 2021 (October-December)</b> ?			
		Higher	Same	Lower
	Demand/ Orders			
	Production volume			
	Growth in sales			
	Prices of goods and services purchased			
	Prices of goods and services sold			
	Number of full-time employees			
	Reasons for these views on business activities?			

	b) How do you expect the indicators below to develop in <b>Quarter 2, 2022 (April-June)</b> compared to <b>Q1 2022 (January-March)</b> ?			
		Increase	Remain Unchanged	Decrease
	Demand/ Orders			
	Production volume			
	Growth in sales			
	Prices of goods and services purchased			
	Prices of goods and services sold			
	Number of full-time employees			
	Reasons for these views on expectation of business activities?			

3. Currently, what is the **potential level of difficulty** in meeting an unexpected increase in demand or sales?

No difficulty (operating below capacity)

☐

Some difficulty (at or near full capacity)

☐

Significant difficulty (operating above capacity)

☐

Other (please specify)

.....

Reasons for these views on operating capacity?

.....

## C. OUTLOOK ON THE EXTERNAL BUSINESS ENVIRONMENT

4a) In your view, **what are the top three factors that could significantly constrain** the expansion/growth of your company over the next 12 months? List 3

	1	2	3
Business environment/cost of doing business (delayed disbursements, cost of inputs, etc.)			
Increased taxation			
Factors related to Covid-19 (availability of vaccines, increased infections, lockdowns etc.)			
Constraints in business financing (inability to secure credit, cost of credit etc.)			
Reduced consumer demand (reduced consumer purchasing power)			
Political uncertainty			
Economic environment (inflation, economic slowdown etc.)			
Exchange Rates			
Supply chain disruptions			
Regulatory issues			
Weather conditions			
Other (please specify)			

4b) What **top three** things is your company doing to **mitigate the significant factors that could constrain growth/expansion**

	1	2	3
Managing costs/risks			
Lobbying with relevant stakeholders (governments, business membership organizations etc.)			
Digitization/innovation/enhanced use of technology			
Skills development/hiring/talent retention			
Covid-19 mitigation measures (vaccinations, employee safety, complying with MOH guidelines etc.)			
Increased sales and marketing			
Restructuring/relocation			
Diversification (expansion into new markets, developing new products etc.)			
Increased marketing/better branding			
Research and development			
Other (please specify)			

5. In your view, what **top 3 internal factors** could strengthen your company's outlook over the next 12 months?

	1	2	3
Improved efficiency/innovation			
Skills retention and talent development			
Strengthen product portfolio/develop new products			
Diversification of revenue streams			
Internal measures to contain costs (restructuring, outsourcing etc.)			
Digitization/increased automation			
Strong supply chains			
Union relationships			
Increased marketing/better branding			
Strengthen corporate governance			
Other (please specify)			

6. In your view, what **top three external factors** could strengthen your company's outlook over the next 12 months?

	1	2	3
Containment of the Covid-19 pandemic			
Stable economic environment (controlled inflation, economic growth etc.)			
Enabling business environment/easing of the cost of doing business			
Global economic recovery			
Political stability			
Stability of the Kenyan Shilling			
Taxation issues (reduced taxation, tax refunds, tax incentives etc.)			
Reduced corruption			
Government stimulus programs			
Regulatory issues (licensing, county regulations, proportionate regulation, approvals etc.)			
Weather conditions			
Other (please specify)			

## D. STRENGTHS AND STRATEGIC PRIORITIES

7. What are your company's <b>top three strengths</b> ? (Please give in order of importance, starting with the most important)			
	1	2	3
Technical capabilities/skilled workforce			
Trusted brands/product quality			
Corporate governance/board/management experience			
Effective supply chains			
Company values			
Thought leadership			
Being customer-centric			
Diversified business			
Technological advancement			
Long presence in the market/history of operations			
Other (please specify)			



**8. What are the top 3 strategic priorities for your company over the next 3 years?**

	1	2	3
Improved efficiency			
Cost optimization			
Diversification (market expansion/new products)			
Invest in talent/skills development			
Improve corporate governance			
Sustainable business growth			
Mergers and Acquisitions			
Mobilization of resources			
Digital transformation/technological advancements			
Partnerships/engagement			
Other (please specify)			

**E. Any other comments**

9. Do you have any other comments that you would like to give?

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_



**Central Bank of Kenya**

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