



Central Bank of Kenya

Monetary Policy Committee CEOs Survey

July 2021



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1. BACKGROUND

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

The Survey seeks views of the CEOs on selected indicators including business confidence and optimism, previous 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 firms' strategic priorities over the medium-term.

The Survey targets CEOs of key private sector firms including members of the Kenya Private Sector Alliance (KEPSA) and the Kenya Association of Manufacturers (KAM). The firms covered in the Survey are sampled from key sectors of the economy including agriculture, mining and energy, manufacturing, wholesale and retail trade, hotels and restaurants, information and communications technology (ICT), transport and storage, real estate, pharmaceuticals, building and construction, and finance and insurance. These sectors account for over 74 percent of Kenya's Gross Domestic Product (GDP).

2. INTRODUCTION

The latest CEOs Survey was conducted between July 1 and 15, 2021. The Survey inquired from CEOs their levels of confidence/optimism in the growth prospects of 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 the third quarter (Q3) of 2021 compared to the second quarter (Q2), and their expectations for economic activity in the fourth quarter (Q4).

The Survey also sought to obtain from CEOs the significant factors likely to affect business expansion/growth in the next one year (July 2021-June 2022), as well as the strategic directions and solutions to address their key constraining factors over the medium term (July 2021 – June 2023). This report provides a summary of the findings of the Survey.

3. SURVEY METHODOLOGY

The Survey targeted CEOs of private sector firms, comprising members of KAM and KEPSA. The survey questionnaire was administered via a direct online survey and on email. A total of 54 firms participated in the survey, with 60 percent of respondents having participated in the May 2021 Survey. The respondents were from the manufacturing, agriculture, financial services, professional services, real estate, media and transport and storage. Most of the respondents (62 percent) were privately-owned domestic firms, while the rest were privately-owned foreign business and publicly-listed domestic companies. Half of the respondents had a turnover of over Ksh 1 billion in 2019. In terms of employment, 42 percent of respondents employed less than 100 employees, while 22 percent 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 takeaways from the Survey are:

- There is increased optimism in the July Survey compared to the May levels. Most businesses are optimistic about growth prospects for the global economy, own companies, own sector and for the Kenyan economy. This optimism was due to: increasing rates of vaccination across the globe expected to curb the spread of COVID-19 and facilitate a return to normalcy, and Government investment in infrastructure especially for firms in the real estate sector. The optimism is generally higher in the services sector on account of pickup in growth after the pandemic. The main concerns by respondents are: pandemic has affected cash flows for firms, less favourable weather conditions, heightened political activity which could delay major investment decisions, and increased taxes.
- Business activity indicators for the third quarter of 2021 compared to the second quarter were mixed with respondents reporting mixed performance of demand/orders, and growth in sales. The firms continue to be optimistic about business activity indicators for the fourth quarter, with expectations of an increase in demand/orders, production volumes, sales growth, and prices of goods/services purchased. The CEOs indicated that the increase in vaccinations, increased economic activity and Government investment in infrastructure portend increased opportunities.

However, firms reported that activity in the third quarter was likely to be impacted by higher inflation.

- Across all sectors, reduced consumer demand and increased taxation were identified, among others, as significant factors that could constrain expansion/growth of private sector firms over the next 12 months. In response to these challenges, firms in the agricultural sector intend to increase sales/marketing, while those in services and manufacturing sectors intend to manage costs and risks.
- The business leaders indicated that improved efficiency/innovation, increased marketing/better branding and improvement of product portfolio/development of new products were key internal factors that could strengthen the outlook for their firms. An enabling business environment, a stable economic environment and containment of the COVID-19 pandemic were the external factors that could strengthen their firms' outlook over the next 12 months.
- Business leaders indicated that they would leverage on their firms' top strengths, identified as trusted brands/product quality, customer-centricity and company values to address their most urgent concerns. Nonetheless, they would like to see more government support towards improving the business environment.
- Strategic direction for CEOs over the next three years remains similar to those in the May Survey. In particular, business leaders plan to diversify more, invest in skills/talent development, and grow their businesses sustainably.

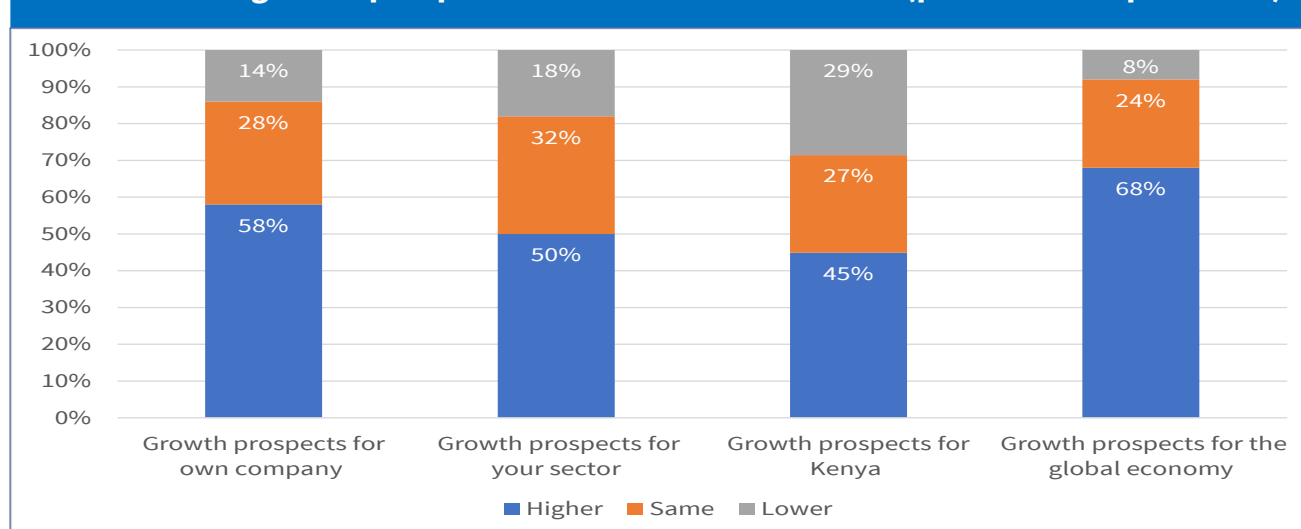
5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

The Survey assessed the CEOs optimism in the growth prospects of their companies, sectors, and the Kenyan and global economies over the next 12 months (**Chart 1**). Respondents were optimistic about higher growth prospects of their own companies, own sector, and the domestic and global economies.

The optimism was mainly driven by the services and manufacturing sectors due to increasing rates of vaccination across the globe which is expected to curb the spread of coronavirus and facilitate normalization of operations, government investment in infrastructure especially for firms in the real estate sector, and a resurgence in business activity. Some respondents (28 percent) do not expect a change in growth prospects over the next 12 months citing continued uncertainty surrounding the pandemic, less favourable weather conditions, reduced cash flows and the need for the government to provide an enabling environment.

The Survey also revealed that business confidence in the Kenyan economy, compared to the growth for the other indicators was mixed. While 45 percent expected higher growth, 29 percent of the business leaders expected a lower growth noting concerns with regard to the tourism sector, increasing political activity which could delay major investment decisions, and increased taxation. Respondents noted that growth would be contingent on the government continuing to provide an enabling environment.

Chart 1: The growth prospects over the next 12 months (percent of respondents)

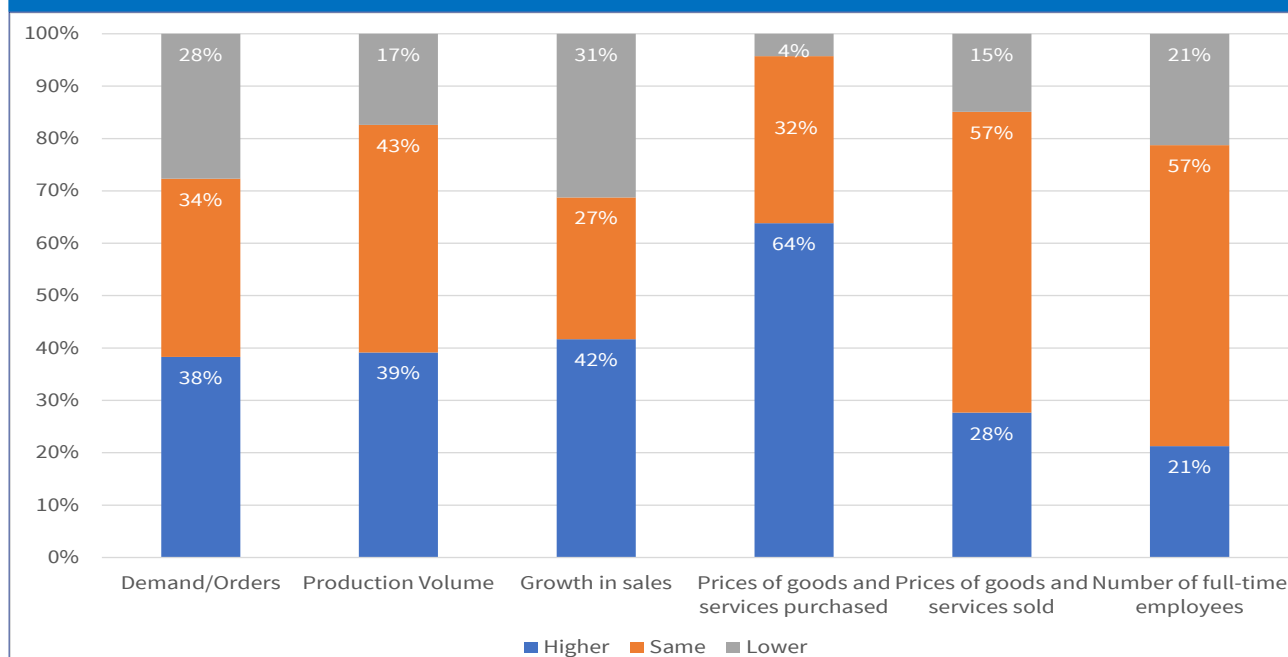


6. PERCEPTIONS ON BUSINESS ACTIVITY IN THE THIRD QUARTER OF 2021 COMPARED TO THE SECOND QUARTER

The Survey sought CEOs' perceptions on business activity in the third quarter of 2021 compared to the second quarter of 2021 (**Chart 2**). The firms reported mixed performance of demand/orders, but growth in sales edged up slightly. Higher prices of goods and services purchased experienced by most firms

appear to have held production volumes, consistent with the May 2021 Survey. Respondents noted that business activity in the third quarter was likely to be impacted by higher inflation. Prices of goods and services sold remained the same for a majority of respondents. Firms also reported scaling down operations and closing a number of units, resulting in the number of employees remaining the same for a majority of them.

Chart 2: Perceptions on Business Activity Indicators in Q3 compared to Q2



Demand/orders and production volumes were especially higher for firms in the services sectors and lowest for firms in the agricultural sector (**Charts 3 and 4**). Some firms in the agricultural sector reported having invested more in business development activities to drive growth in sales. The survey findings

also showed that prices of goods and services purchased was highest for firms in the manufacturing sector, due to increasing supply costs. Respondents also reported reduced purchasing power amongst their customers, and an influx competing products in the market.

Chart 3: Perceptions on Demand/Orders in 2021 Q3 compared to 2021 Q2 by Sectors

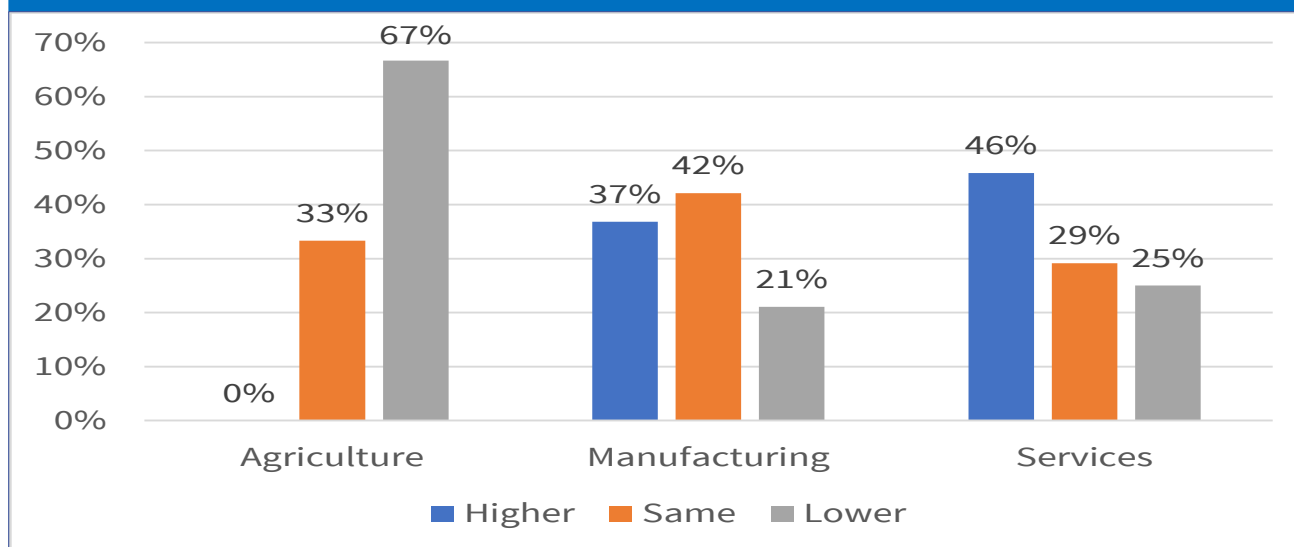
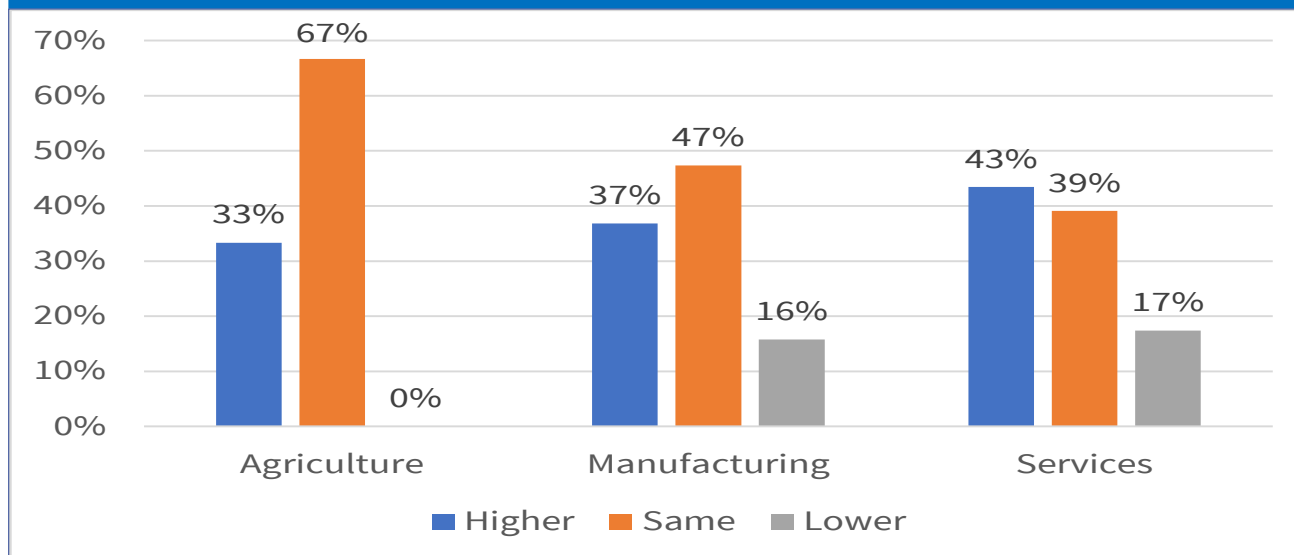


Chart 4: Perceptions on Production Volumes in 2021 Q3 relative to 2021 Q2 by Sectors



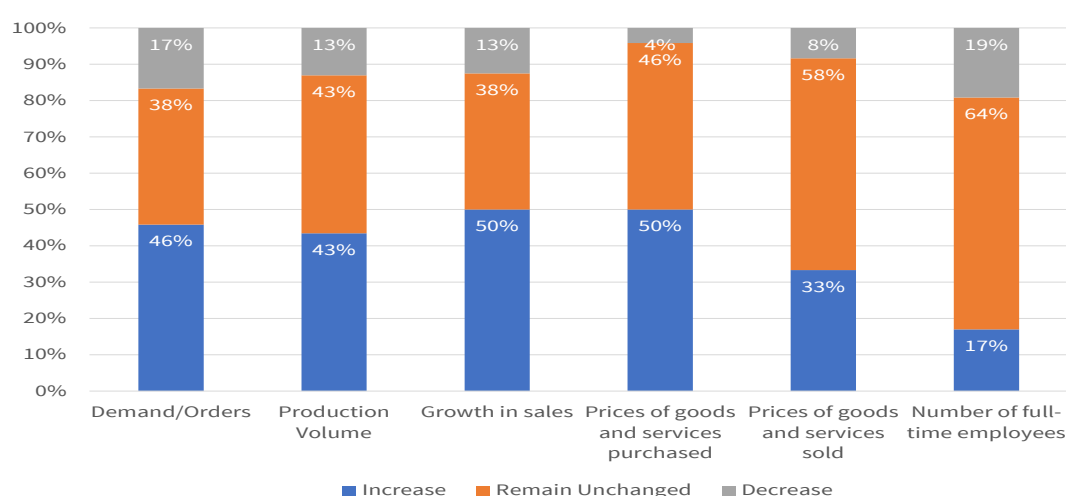
7. OUTLOOK FOR BUSINESS ACTIVITY IN THE FOURTH QUARTER OF 2021 COMPARED TO THE THIRD QUARTER

The Survey sought CEOs expectations of business activity in the fourth quarter of 2021 relative to the third quarter (**Chart 5**). Most CEOs expect business activity to strengthen in the fourth quarter of 2021.

Respondents in the services and manufacturing sectors were the most optimistic with majority citing the intensification of vaccinations, increasing economic activity and government investment in infrastructure as factors that will support increased

business opportunities. Further, respondents expect the fourth quarter to be impacted positively by industry seasonality. Firms in the agricultural sector expect their productions volumes to be boosted by short rains in the fourth quarter. Some respondents expect a decrease in business activity, due to potential increase in political activity which would hamper investment. On the number of employees, most respondents expect that this will remain at the same level.

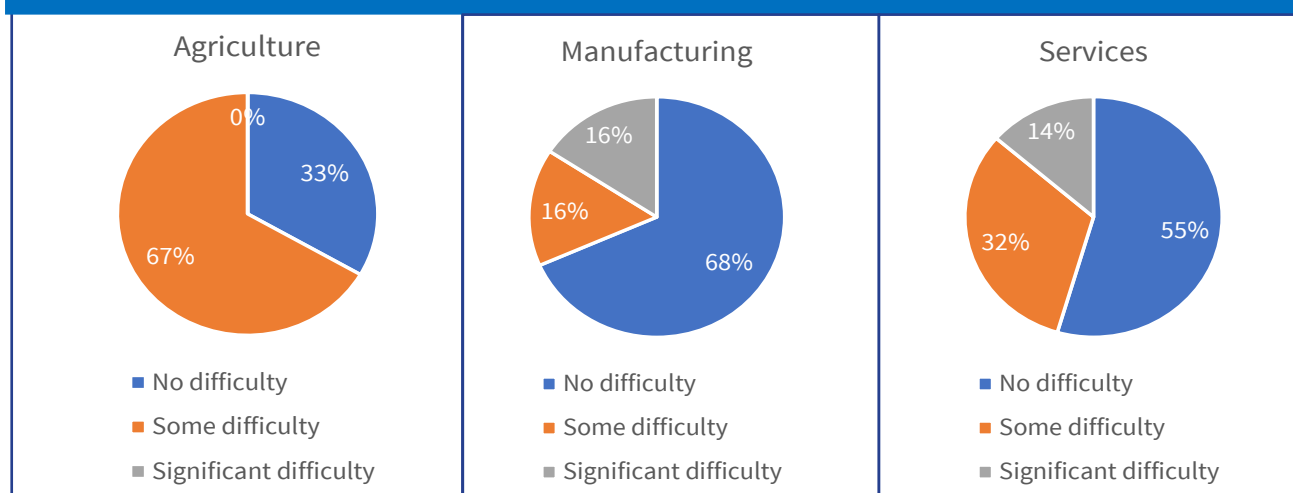
Chart 5: Views on Expected Change in Business Activity Indicators in Q4 compared to Q3



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**). For the firms that foresee some difficulty

in meeting unexpected increase in demand, the reasons cited include supply chain challenges and to a lesser extent, challenges in obtaining the necessary financing.

Chart 6: Potential Level of Difficulty in Meeting Increased Demand or Sales

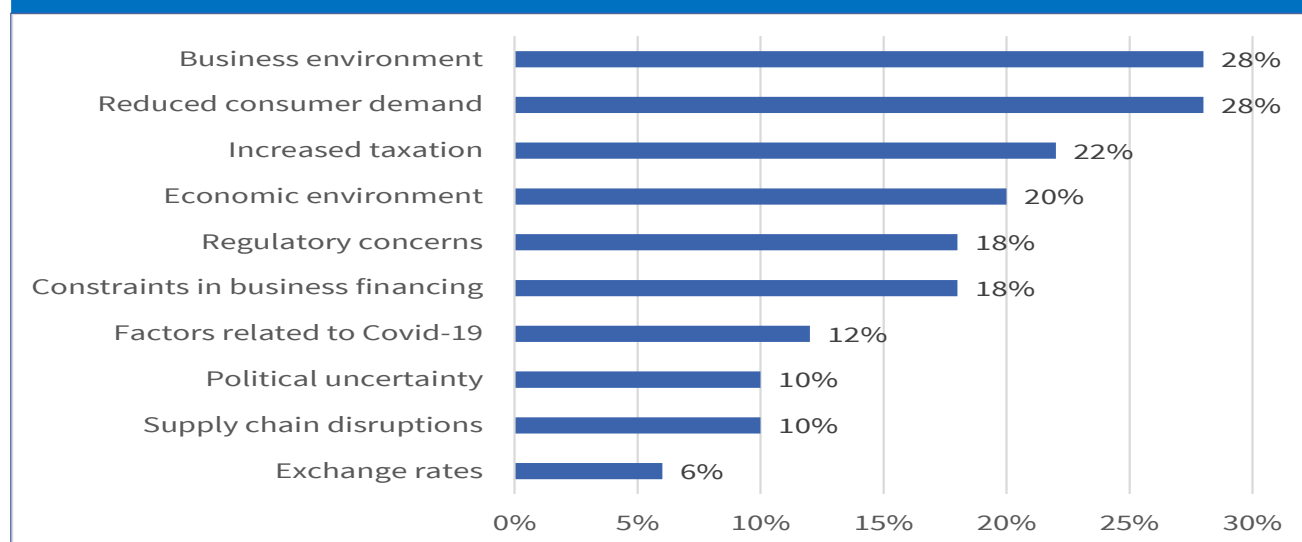


8. FACTORS CONSTRAINING EXPANSION OVER THE NEXT 12 MONTHS

The survey sought to establish from the CEOs the factors that could constrain the growth and/or expansion of firms over the next 12 months (**Chart 7**). There's consistency in the CEOs assessment of the business horizon. Across all sectors the scenario

reflects to a large extent the May 2021 picture, with respondents citing the business environment; reduced consumer demand; and increased taxation as factors that could constrain growth.

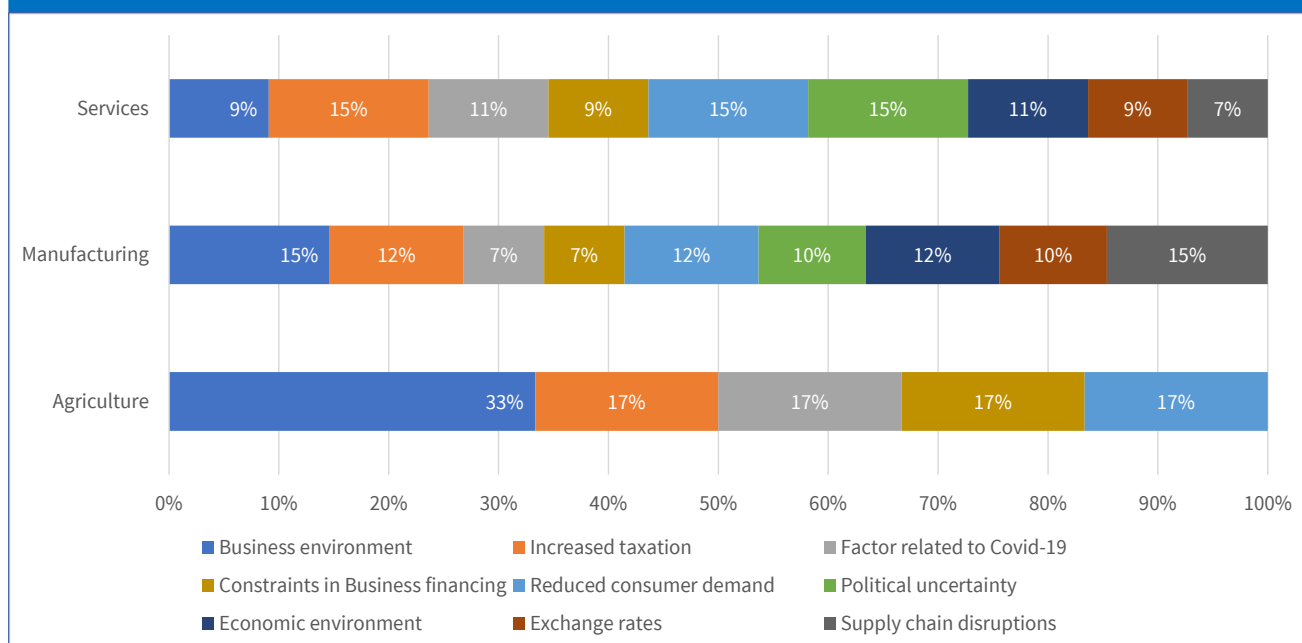
Chart 7: Significant Factors that Constrain Firms' Expansion



For respondents in the manufacturing sector, business environment and supply chain disruptions ranked highest (**Chart 8**). Increased taxation, reduced consumer demand and political uncertainty ranked equally for respondents in the services, whereas business environment ranked highest for respondents in the agriculture sector with

increased taxation, factors related to the pandemic, constraints in business financing and reduced consumer demand all ranking equally. The business environment ranked highest for respondents in the agriculture sector.

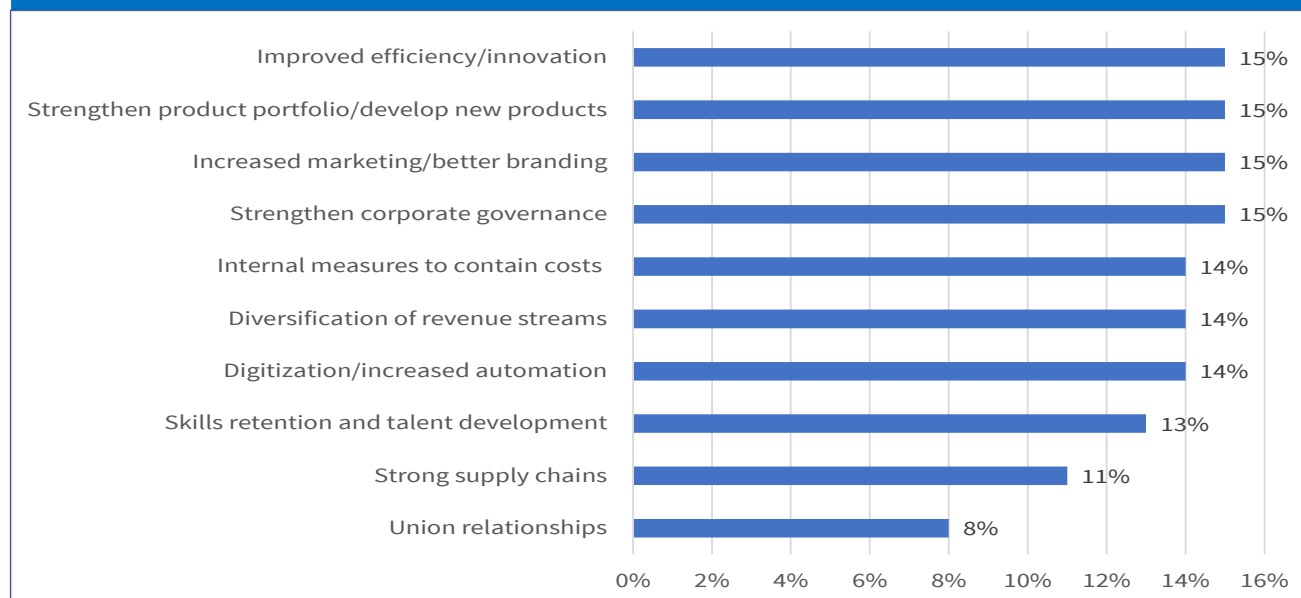
Chart 8: Significant Factors that Constrain Firms' Expansion by Sectors



The Survey sought to establish internal factors that could support business expansion over the next 12 months (**Chart 9**). The survey results highlighted improved efficiency/innovation, development of

new products and increased marketing as the main factors that could strengthen the business outlook in the next 12 months.

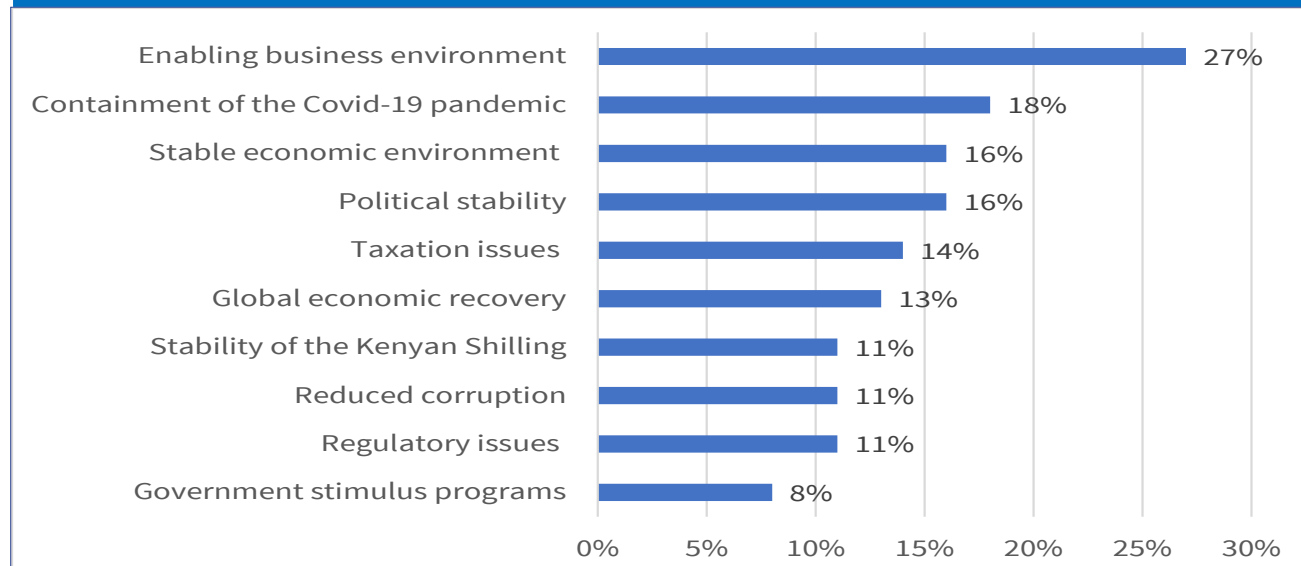
Chart 9: Internal Factors that could Strengthen Firms' Outlook



An enabling business environment, a stable economic environment and containment of the COVID-19 pandemic were identified as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months (**Chart 10**). In particular, the CEOs reported that an enabling business environment would make businesses more competitive for growth and sustainable in the long term. Respondents indicated the need for tax incentives for companies affected by the pandemic as well as facilitation of

an enabling environment. Additionally, respondents recommended enhancement of the regulatory environment. Further, business leaders would like to see greater measures to ensure that COVID-19 vaccines are available to a larger proportion of the population as this will support resumption of normal business thus enabling the economy to pick up. On the economic environment, respondents indicated that sustained macroeconomic stability would ensure investor confidence in view of the 2022 elections.

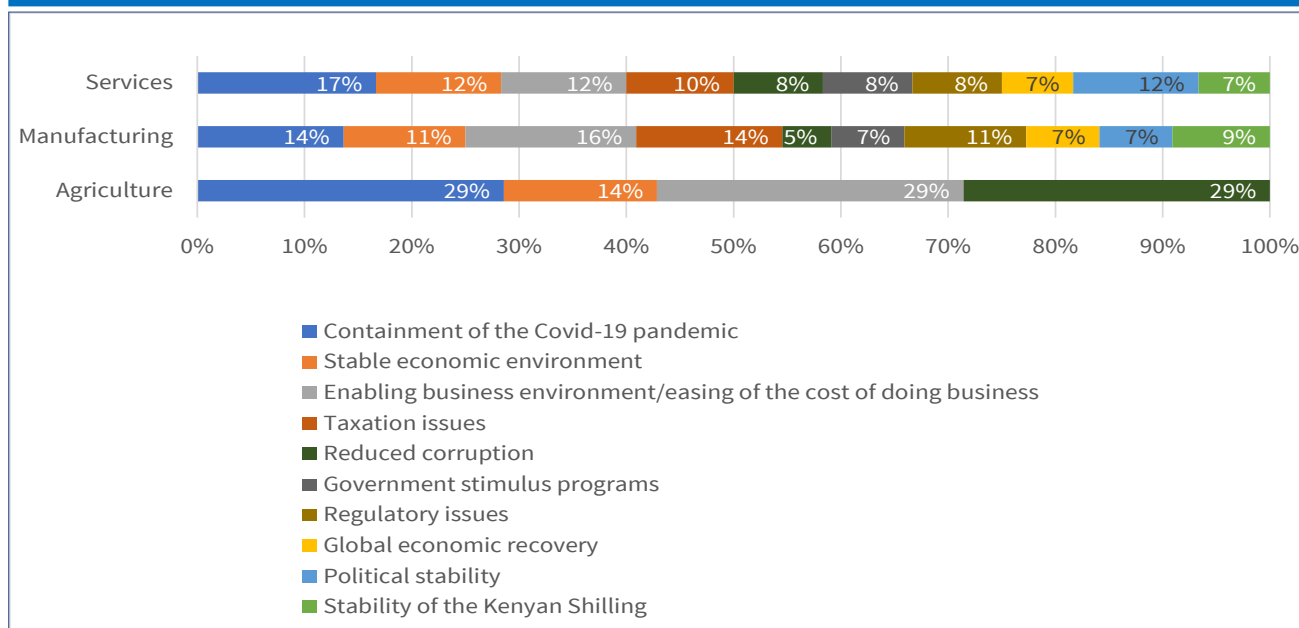
Chart 10: External Factors that could Strengthen Firms' Outlook



Containment of the pandemic and an enabling business environment were top factors highlighted by respondents that would strengthen firms' outlook for firms in the agricultural and services sectors.

For firms in the manufacturing sector, an enabling business environment was ranked highest (**Chart 11**).

Chart 11: External Factors that could Strengthen Firms' Outlook by Sectors



9. TOP COMPANY STRENGTHS AND PROPOSED SOLUTIONS TO FACTORS CONSTRAINING GROWTH

The Survey requested respondents to indicate their top company strengths and proposed solutions to mitigate the identified factors constraining growth (**Chart 12**). Firms continued to report trusted brands

and product quality, customer-centricity, company values and the quality of their workforce as being integral in offering superior customer satisfaction.

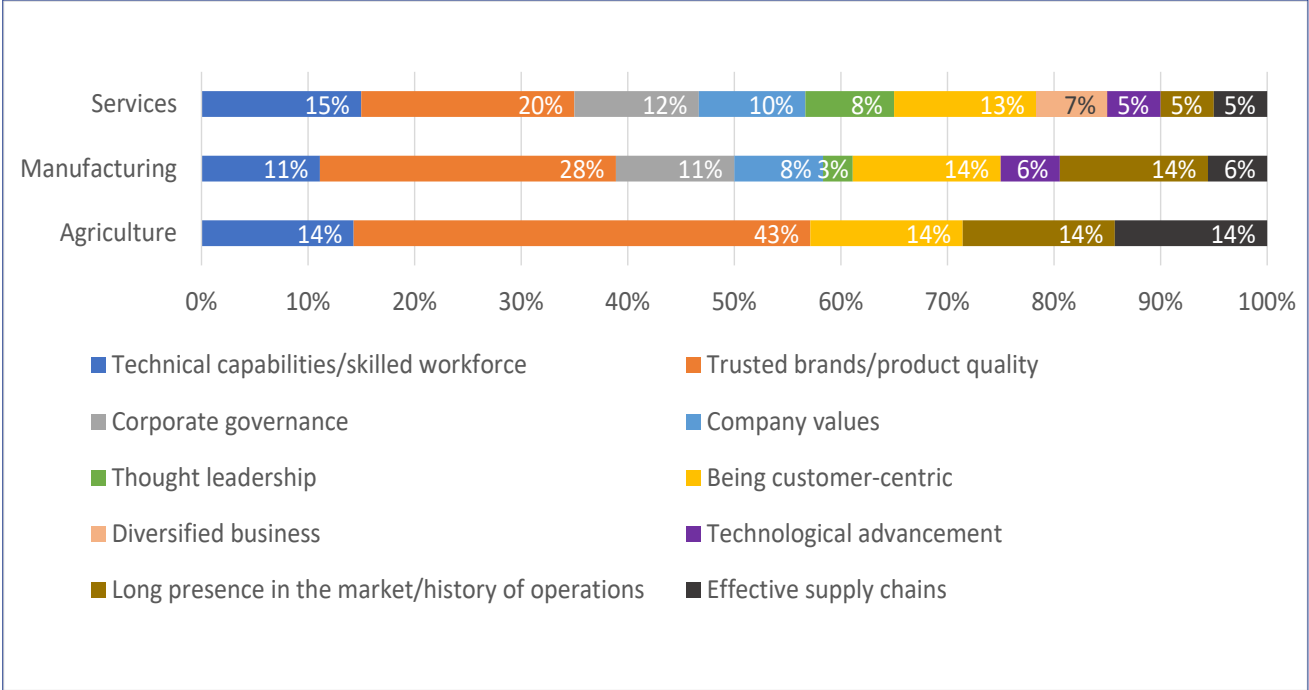
Chart 12: Firms' top strengths



At the sector level, trusted brands and skilled workforce ranked top for the services and agricultural sector respondents, while trusted brands and long

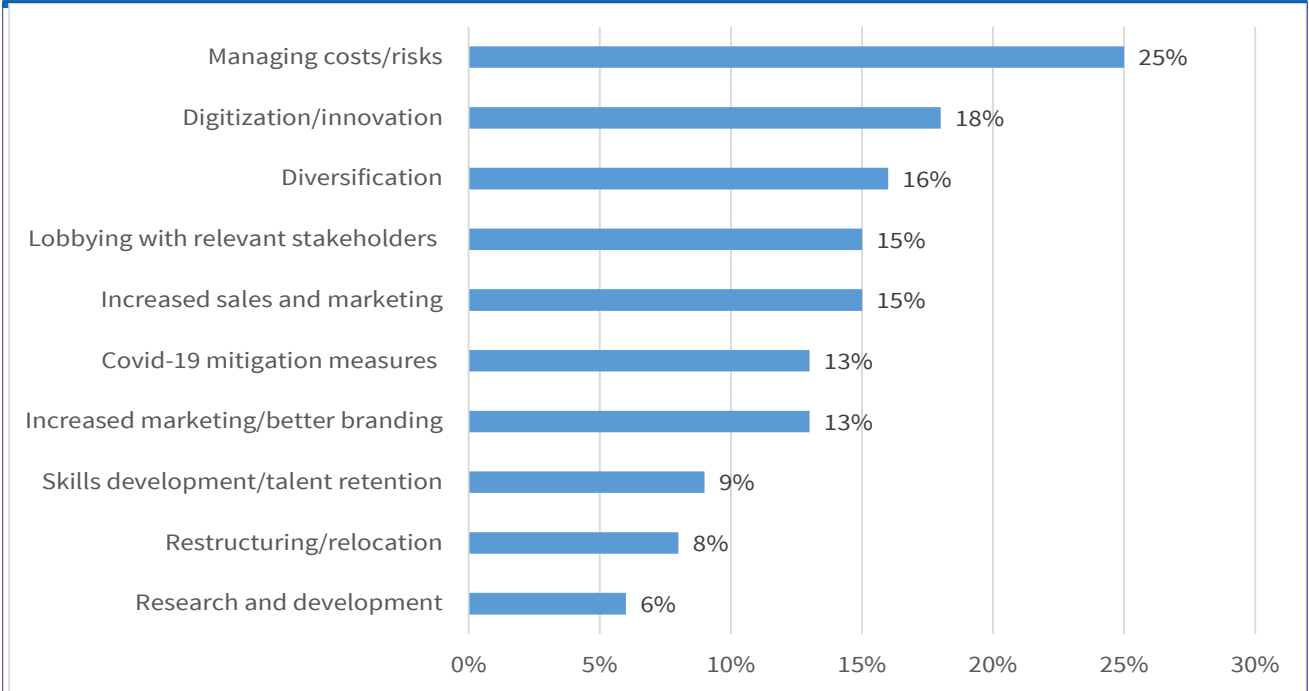
presence in the market were key strengths for the manufacturing sector **(Chart 13)**.

Chart 13: Firms' Top Strengths by Sectors



With regard to the factors constraining growth/expansion, firms proposed various solutions: management of costs and risks, investment in digitization/innovation as well as diversification of businesses **(Chart 14)**.

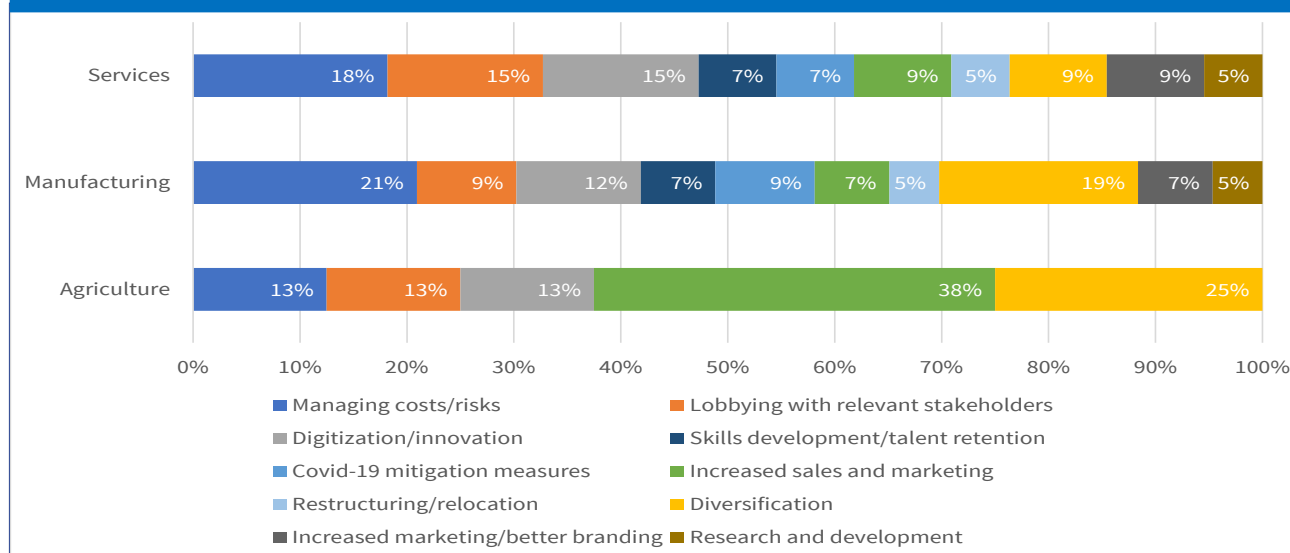
Chart 14: Firms' Proposed Solutions to Factors Constraining Growth



Increased sales and marketing, and diversification were important solutions for the agricultural sector, while for the services sector, the top proposed solution was management of costs and risks. Lobbying with relevant stakeholders and digitization/

innovation were ranked equally for the services sector. In the manufacturing sector, management of costs/risks and diversification were the top proposed solutions (**Chart 15**).

Chart 15: Firms' Proposed Solutions to Factors Constraining Growth by Sector

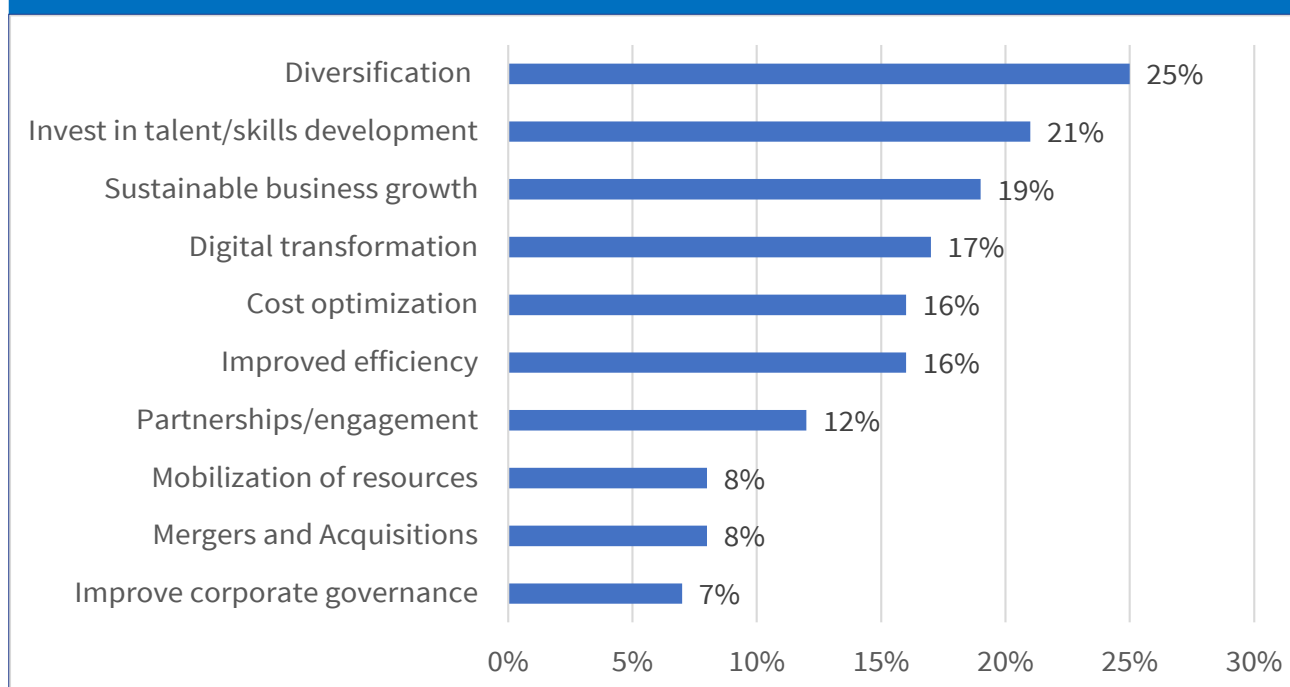


10. STRATEGIC PRIORITIES

The Survey asked the respondents of their strategic priorities over the next three years (**Chart 16**). There were no significant deviations in business

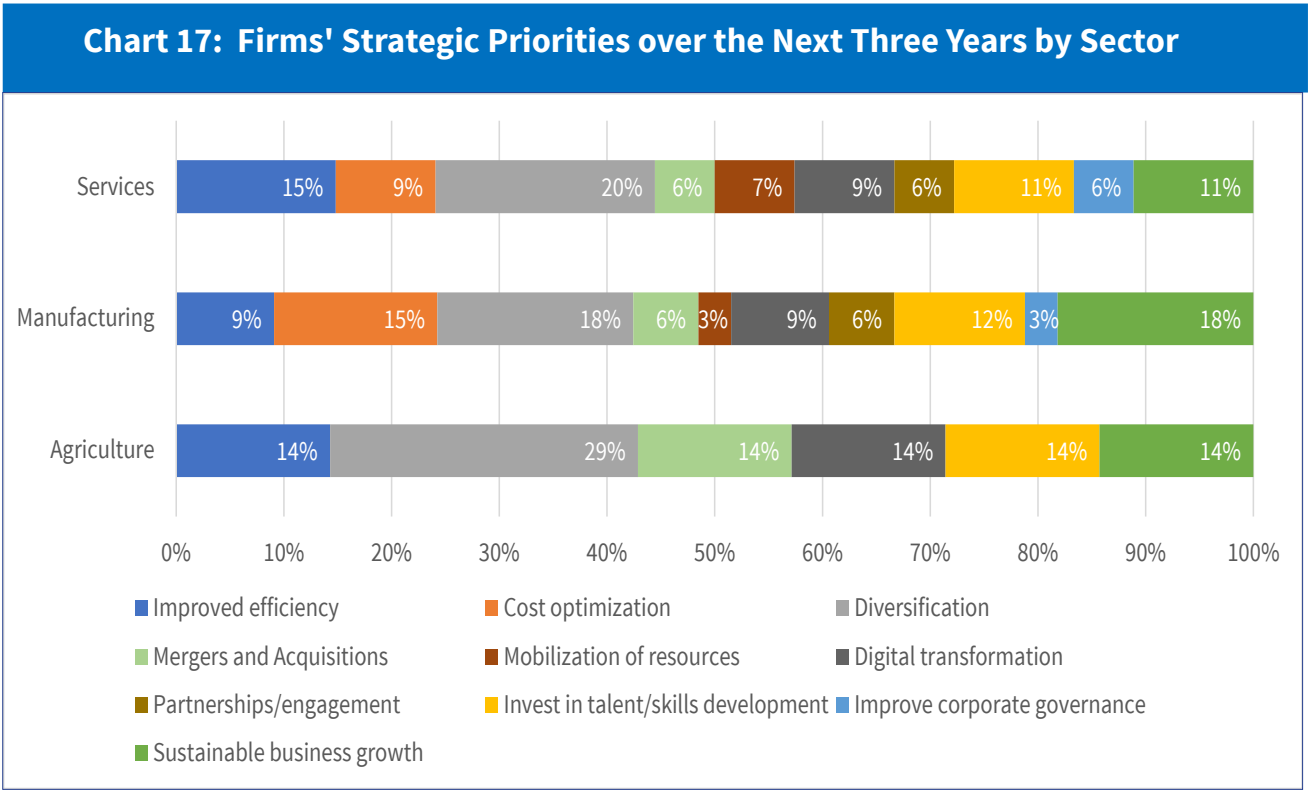
strategies over the medium-term compared to those highlighted by respondents in the May Survey. Businesses plan to diversify, invest in talent and grow their businesses sustainably.

Chart 16: Firms' Strategic Priorities over the Next Three Years



In addition to diversification as a top strategy for all sectors, sustainable business growth and cost optimization were other top priorities for firms in the manufacturing sector. Improved efficiency and sustainable business growth were

important priorities for the services sector while for the agricultural sector, top priorities included sustainable business growth, investing in talent, digital transformation and improved efficiency.



11. CONCLUSION

The July 2021 Survey revealed increased optimism compared to the May 2021 level. Most businesses were optimistic about growth prospects for the global economy, own companies, own sector and for the Kenyan economy. Optimism was generally higher in the services and manufacturing sectors with respondents reporting a resurgence in business activity.

With regard to economic activity, business activity indicators for the third quarter of 2021 compared to the second quarter were mixed with respondents reporting mixed performance of demand/orders and growth in sales. Firms continue to be optimistic about business activity indicators for the fourth quarter, with expectations of an increase in demand/orders, production volumes, sales growth, and prices of goods/services purchased. Nevertheless, firms reported that activity in the third quarter was likely to be impacted by higher inflation.

Among others, reduced consumer demand and increased taxation were identified as significant factors that could constrain expansion/growth of

private sector firms across all sectors over the next 12 months. In response to these constraints, firms in the agricultural sector intend to leverage on increased sales/marketing and management of costs and risks while those in services and manufacturing sectors intend to manage costs and risks.

The business leaders indicated that they would leverage on their firms' top strengths, identified as trusted brands/product quality, customer-centricity and company values to address their most urgent concerns. Nonetheless, they would like to see more government support towards improving the business environment.

There were no significant deviations in strategic direction for CEOs over the next three years, compared to the May 2021 Survey. In particular, business leaders plan to diversify more, invest in skills/talent development, and grow their businesses sustainably.

ANNEX: 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?

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 ☐

Wholesale and Retail Trade ☐

Transport and Storage ☐

Real Estate ☐

Tourism ☐

Professional Services ☐

Other (please specify)
.....

vi) 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 growth prospects , 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			
	Any additional comment on growth prospects?			
B. OUTLOOK ON BUSINESS ACTIVITY				
2.	a) How would you rate the following performance indicators during Quarter 3, 2021 (July - September) compared with Quarter 2 2021 (April-June) ?			
		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			
	Any additional comment on performance of business activities?			

	b) How do you expect the indicators below to develop in Quarter 4 2021 (October-December) compared to Q3 2021 (July-September) ?			
		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			
	Any additional comment 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)

.....

Any additional comment 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			
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.)			
Other (please specify)			

D. STRENGTH AND STRATEGIC PRIORITIES

7. What are your company's top three strengths ? (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?

- _____
- _____
- _____



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