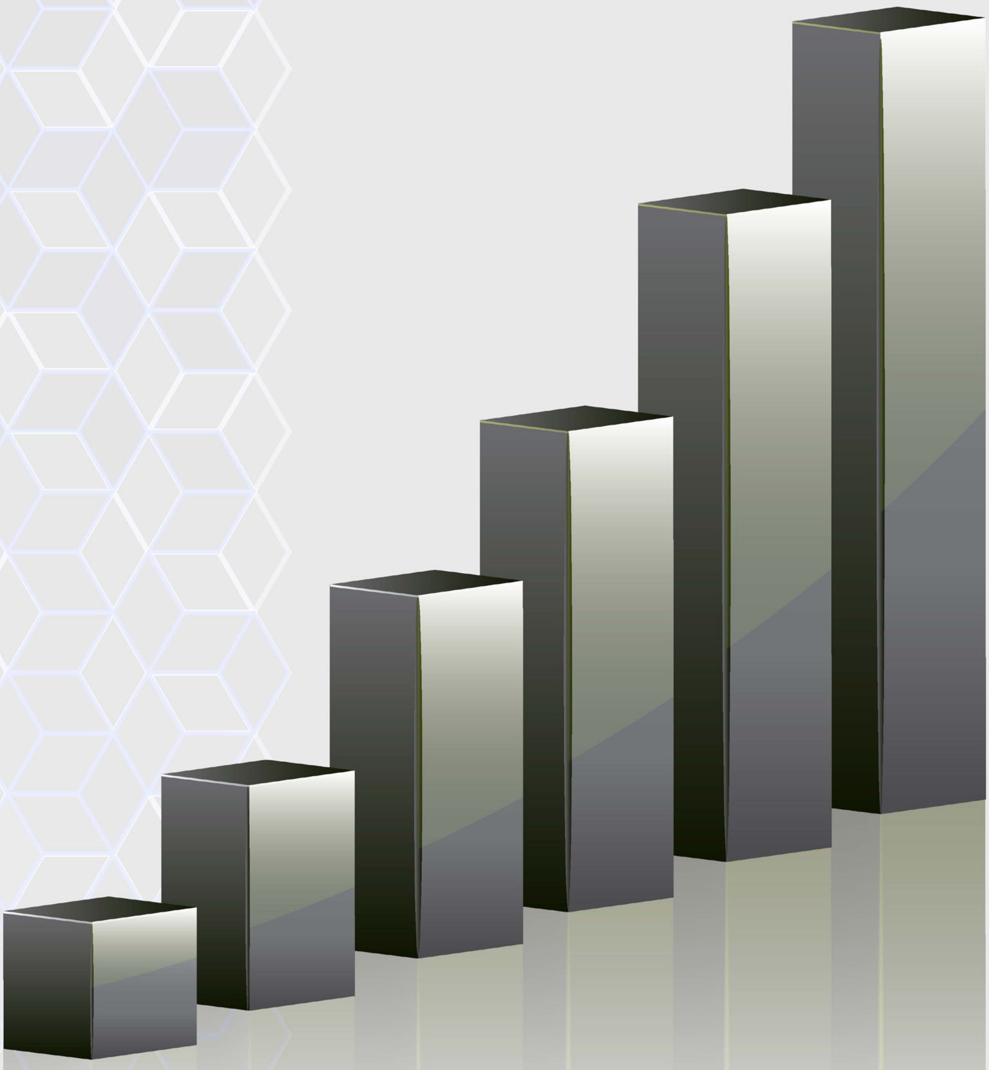
Central Bank of Kenya

Monetary Policy Committee CEO's Survey

January 2022



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1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the suite of surveys (including Private Sector Market Perceptions, and Survey of Hotels) conducted by the Monetary Policy Committee (MPC) every two months prior to MPC 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 CEOs 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 National Chamber of Commerce and Industry (KNCCI) and the Kenya Private Sector Alliance (KEPSA). 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 January 3 and 14, 2021. 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 (January 2022 – December 2022), as well as the strategic directions and solutions to address their key constraining factors over the medium term (January 2022 – December 2024). 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 (28 percent), professional services (21 percent), agriculture (12 percent), financial services (9 percent), ICT, media and telecommunications (6 percent), real estate (6 percent), transport and storage (6 percent), mining and energy (4 percent) and wholesale and retail trade (2 percent). Other sectors such as tourism, hotels and restaurant, pharmaceuticals and healthcare and education accounted for one percent each. Fifty eight percent of respondents were repeat respondents.

Majority of the respondents (55 percent) were privately-owned domestic firms, while the rest were privately-owned foreign business and publicly-listed domestic companies. Forty eight percent of the respondents had a turnover of over Ksh 1 billion in 2019. In terms of employment, 43 percent of respondents employed less than 100 employees, while 31 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 of their companies and the Kenyan economy, mostly driven by the services sector. This optimism was mainly attributed to reduced energy costs, improved consumer demand, lower inflation, government investment in infrastructure, and the lifting of COVID-19 restrictions. However, respondents, particularly in the agriculture and manufacturing sectors, were concerned over rising input costs (especially imports), global supply chain disruptions, heightened political activity which may lead to scaling down of operations as businesses adopt a '*wait and see*' approach to investments, and effects of the pandemic.
- Improvement in performance of business activity for 2022 Q1 compared to 2021 Q4, notably in sales growth on account of strong business prospects especially for professional services, spill over of some sales from Q4 2021 into Q1 2022 and increasing opportunities in the region.

Nonetheless, consumer demand and production volumes remained largely unchanged for a large proportion of respondents. Respondents attributed this to: stable demand following easing of COVID-19 restrictions; seasonality; and minor disruptions due to COVID-19 measures (e.g. border closures by other countries in the East African Community (EAC) region.

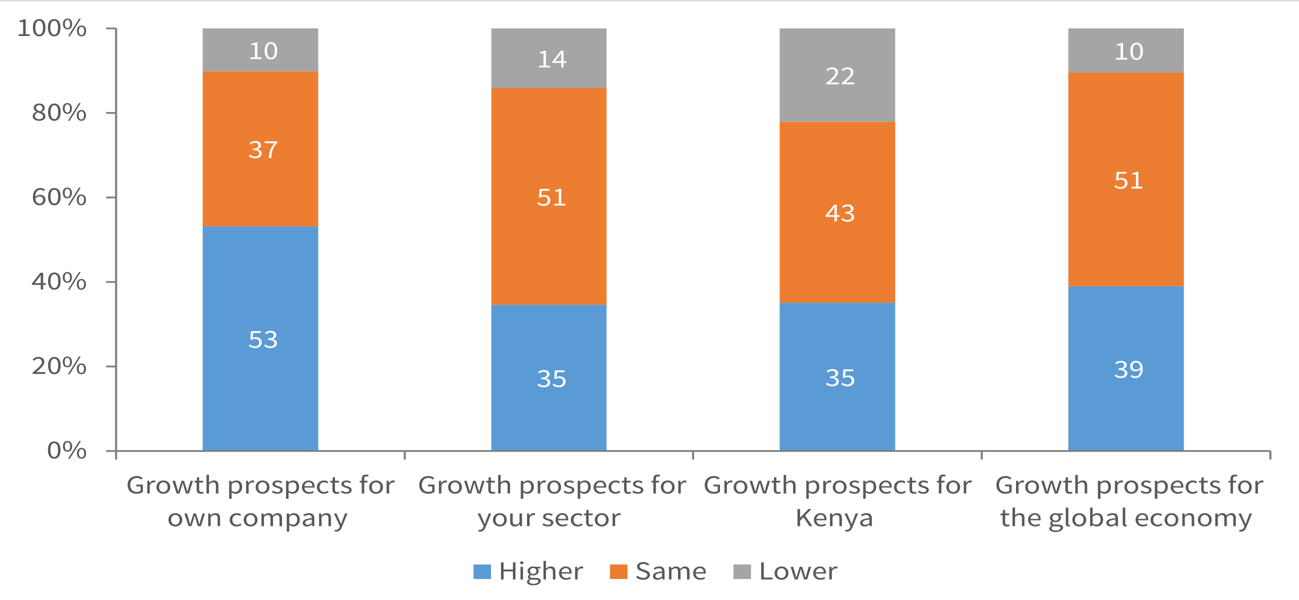
- Surveyed firms continue to be optimistic about business activity in 2022 Q2 and expect this to mirror the 2022 Q1 performance. Respondents expect that increased political activity will leave business activity at largely the same level as that in 2022 Q1. Despite the recent reduction in electricity costs by the Government, respondents expect higher input prices to persist especially for imports where supply chain constraints will continue.
- Besides increased political activity, concerns over the COVID-19 pandemic ticked up marginally. Respondents 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 services and agriculture sectors also intend to lobby with relevant stakeholders and invest in development of employee skills and talent. For services sector firms, mitigation of COVID-19 is also important while for manufacturing firms increased sales and marketing is an important factor.
- 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.

5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

The Survey assessed the CEOs 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 **(Chart 1)**.

Optimism for own company growth prospects and in the Kenyan economy, was mainly due to improved consumer demand, lower inflation and lifting of COVID-19 restrictions. In the services[1] sector, business prospects are especially higher for firms

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



[1] *Services includes professional, hotel/restaurant, media, wholesale/retail, financial and ICT/telecommunications sectors.*

in professional services where activity continues to recover following the easing of COVID-19 restrictions and pickup in consumer demand. Business recovery continues to be supported by government investment in infrastructure. This recovery is expected to continue after the elections. Nonetheless, some sectors continue to face COVID-related restrictions in source market countries thereby diming their company growth prospects.

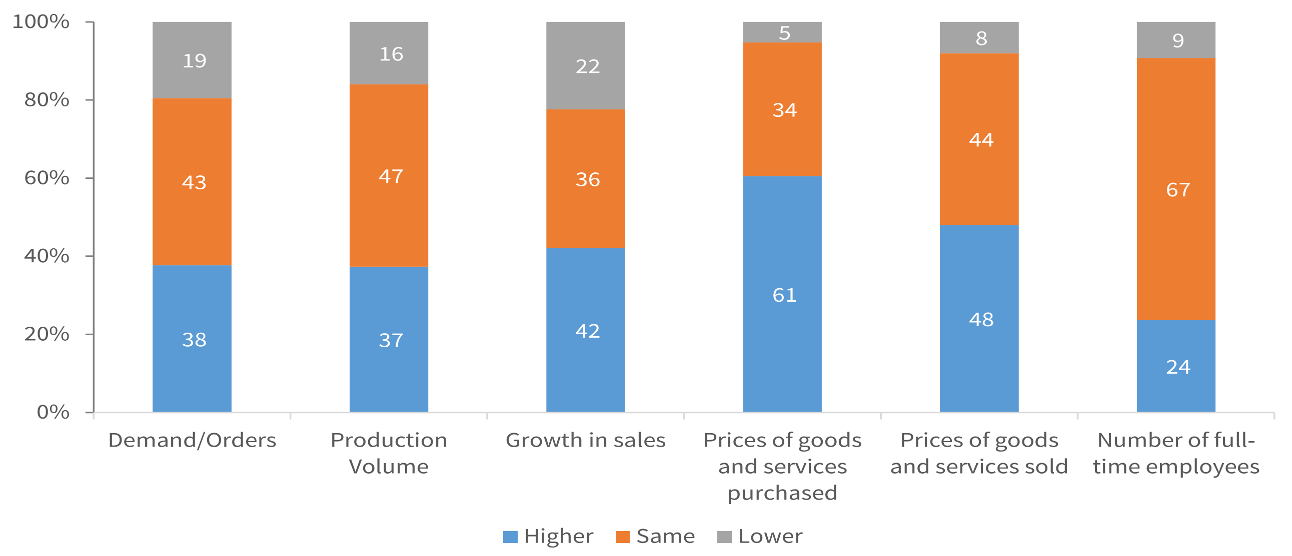
Risks posed by the COVID-19 pandemic have moderated as the pace of vaccination picks up. Recovery of the Kenyan economy will be further supported by the recent announcement on reduced energy costs even as specific sectors that were hardest hit by COVID-19 continue to recover. On the global economy, respondents cite the recent surge in inflation in advanced economies and persistent supply chain disruptions as factors that could constrain growth at about the same levels.

6. PERCEPTIONS ON BUSINESS ACTIVITY IN 2022 Q1 COMPARED TO 2021 Q4

The Survey sought CEOs perceptions on business activity in the first quarter of 2022 compared to the fourth quarter of 2021. The Survey indicated that business activity remains largely at the same level, in particular, demand/orders, production volumes and the number of full-time employees remained stable. Demand has stabilized following the easing of COVID-19 restrictions. Seasonal factors and minor disruptions due to COVID-19 measures at the country's borders will see business volumes remaining at about the same levels **(Chart 2)**.

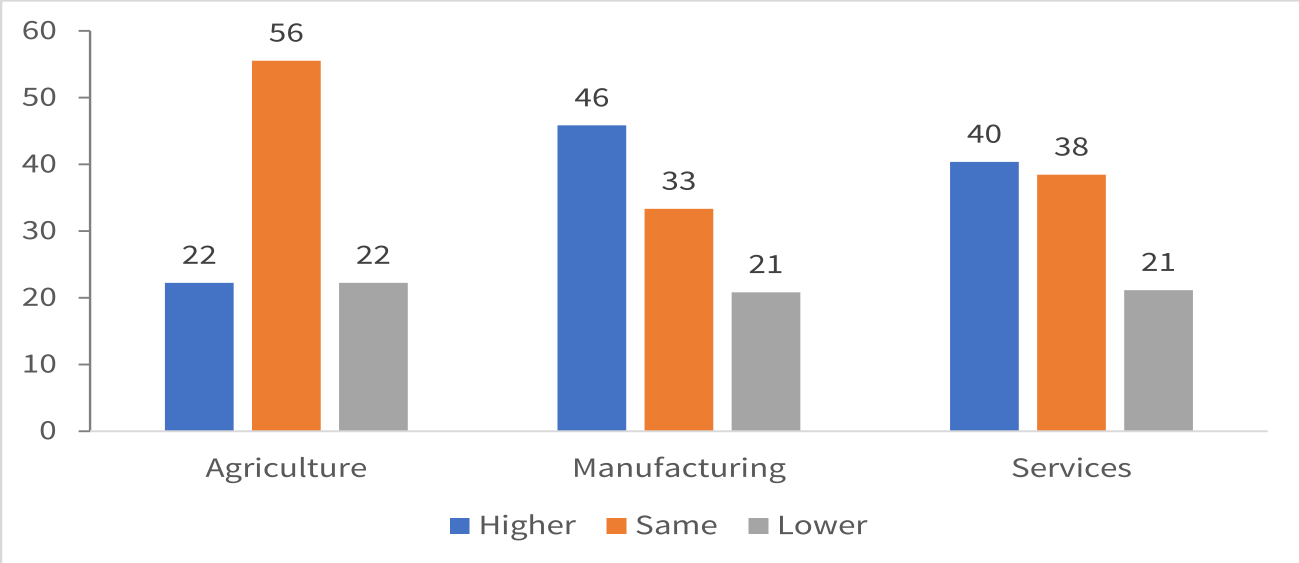
Firms in the agriculture and manufacturing sectors reported higher prices of goods and services purchased on account of global supply chain disruptions, rising import costs, and commodity prices stabilizing at higher levels.

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



Increased demand/orders were reported in the manufacturing sector, where firms reported a spill over of demand from the fourth quarter of 2021 and increased business opportunities from the region. Slight increases in sales growth were also reported for firms in professional services which continue to experience strong business performance and a strong start at the beginning of the year which generally heralds improved business prospects **(Chart 3a)**.

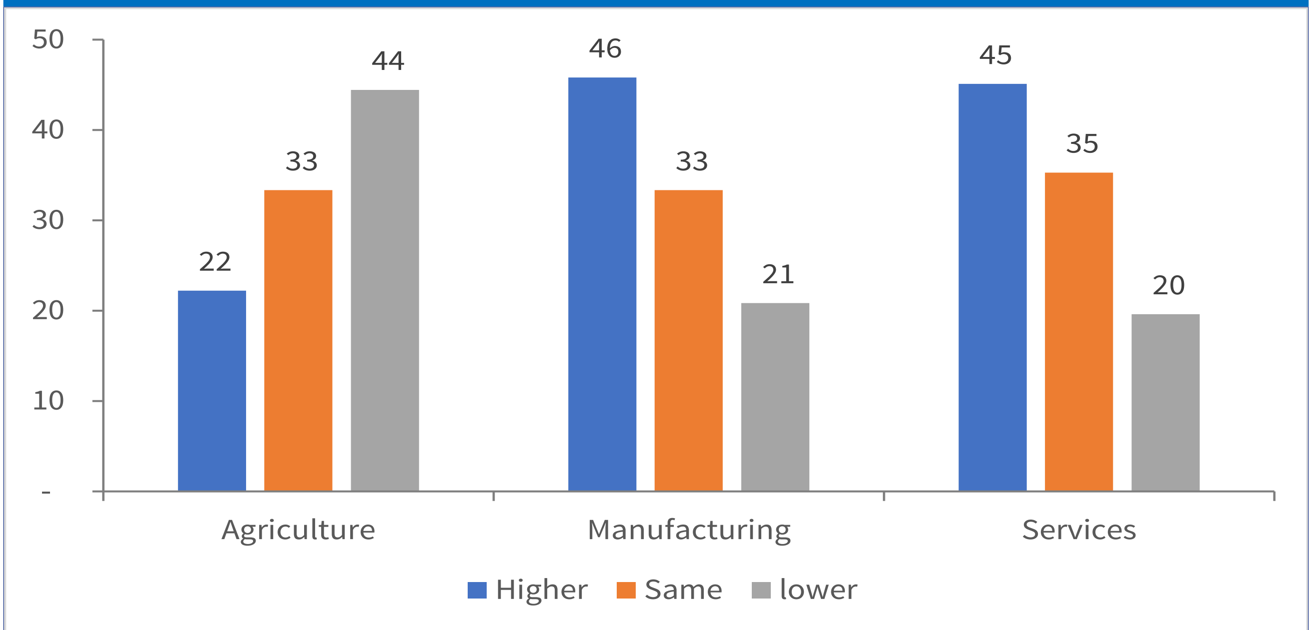
Chart 3a: Perceptions on Demand/Orders in 2022 Q1 relative to 2021 Q4 by Sectors (percent of respondents)



Exporting firms reported increased business from existing clients hence increased sales. Manufacturing sector firms also reported steady sales in 2022 Q1 **(Chart 3b)**.

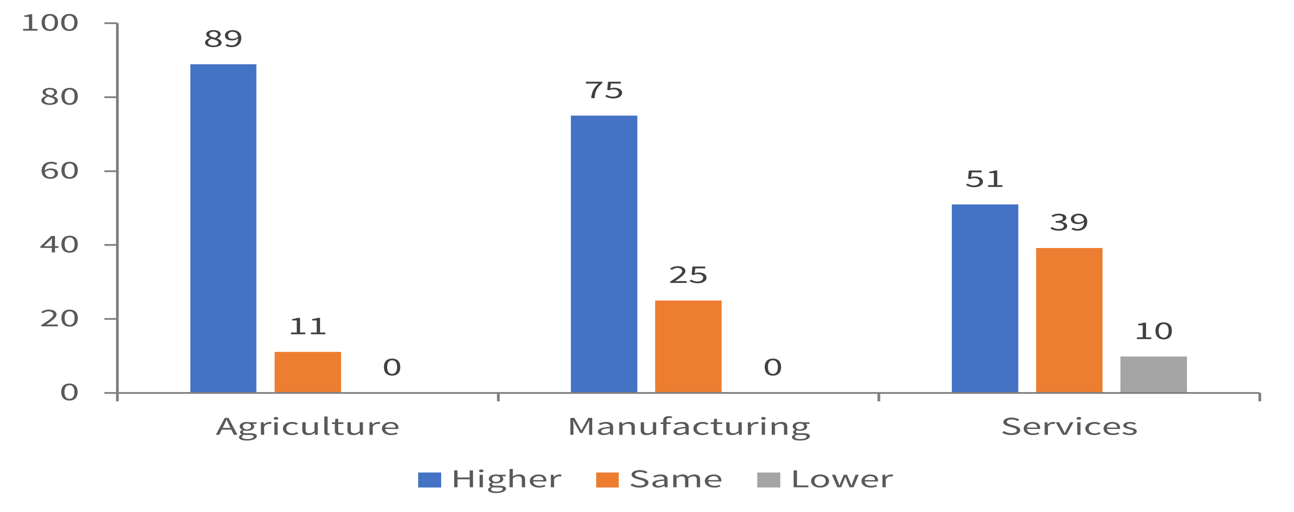
Firms that anticipate lower sales growth attribute this to seasonal factors, with sales expected to pick up from the end of the first quarter of the year.

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 freight remain a big concern for majority of respondents **(Chart 4)**.

Chart 4: Perceptions on Purchase Prices in 2022 Q1 compared to 2021 Q3 by Sectors (percent of respondents)

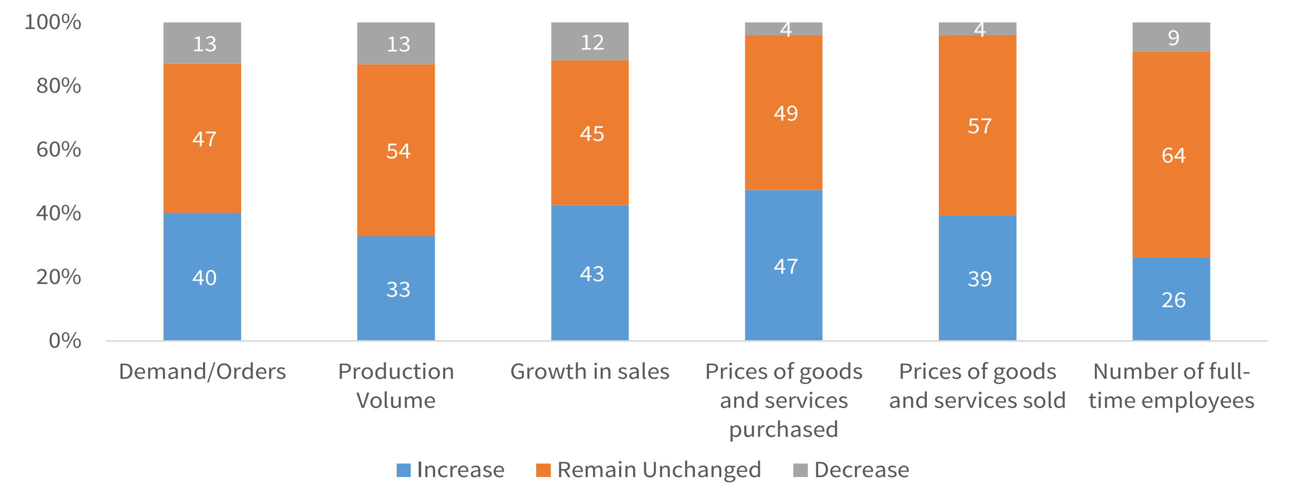


7. OUTLOOK FOR BUSINESS ACTIVITY IN 2022 Q2 COMPARED TO 2022 Q1

The Survey sought CEOs expectations of business activity in the second quarter of 2022 relative to the first quarter of 2022. Most CEOs expect business activity to mirror the performance in 2022 Q1 **(Chart 5)**.

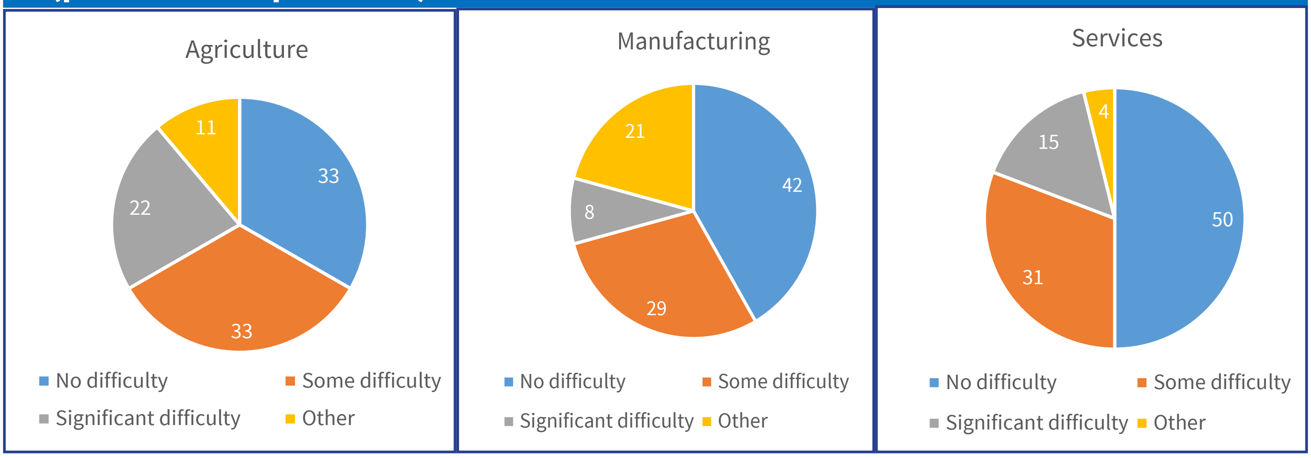
Demand/orders, production volumes, and number of fulltime employees is expected to remain at the same levels for majority of firms. The continued resumption of normal operations will support growth in sales especially for services sector firms in the second quarter of 2022. The prices of goods and services sold will remain elevated as supply chain bottlenecks and high input costs persist. This is likely to be passed on to consumers in the form of higher prices of goods and services sold. Firms continue to be concerned that business performance will be affected by increased political activity as investors adopt a 'wait and see' approach to investments. On the brighter side, most firms expect business activity to 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 and having recourse to additional capital from shareholders should the need for expansion arise. Firms experiencing financing challenges on the other hand foresee difficulty in expanding production. Other reasons cited include: a challenging businesses environment especially in the inland import value chain, reduced business opportunities/depressed demand and inability to source raw materials given existing supply chain disruptions. Further, some firms foresee that getting the right technology in place to support growth as well as challenges in talent retention would significantly constrain their ability to increase production.

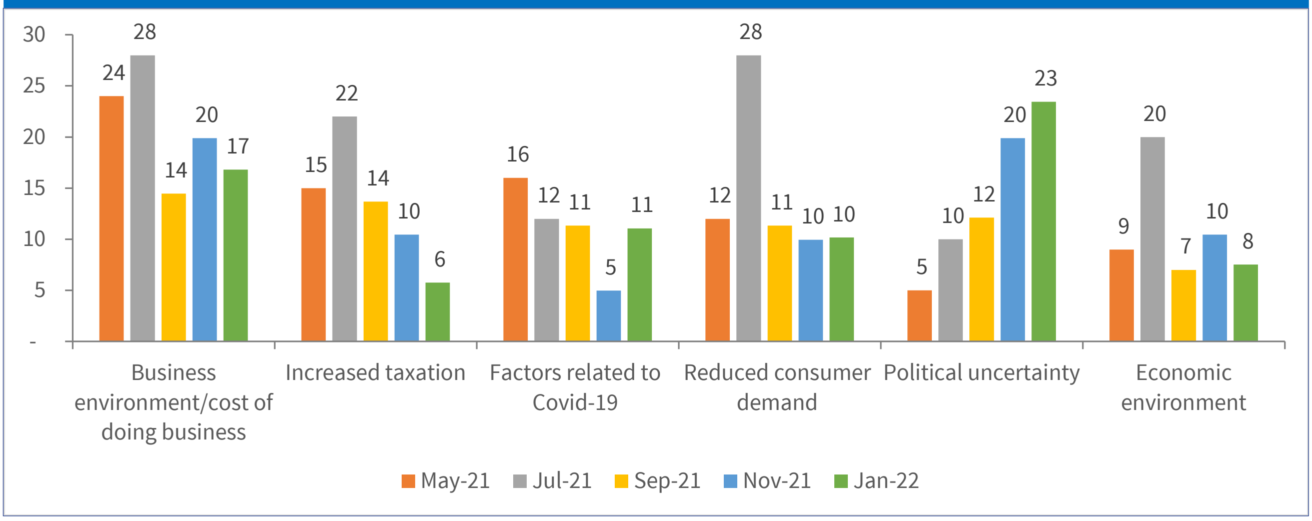
Chart 6: Potential Level of Difficulty in Meeting Increased Demand or Sales (percent of respondents)



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 surge in infections experienced in the fourth quarter of 2021 resulted in an uptick in concerns over the COVID-19 pandemic. However, increased political activity together with the business environment remain of greater concern for firms **(Chart 7)**.

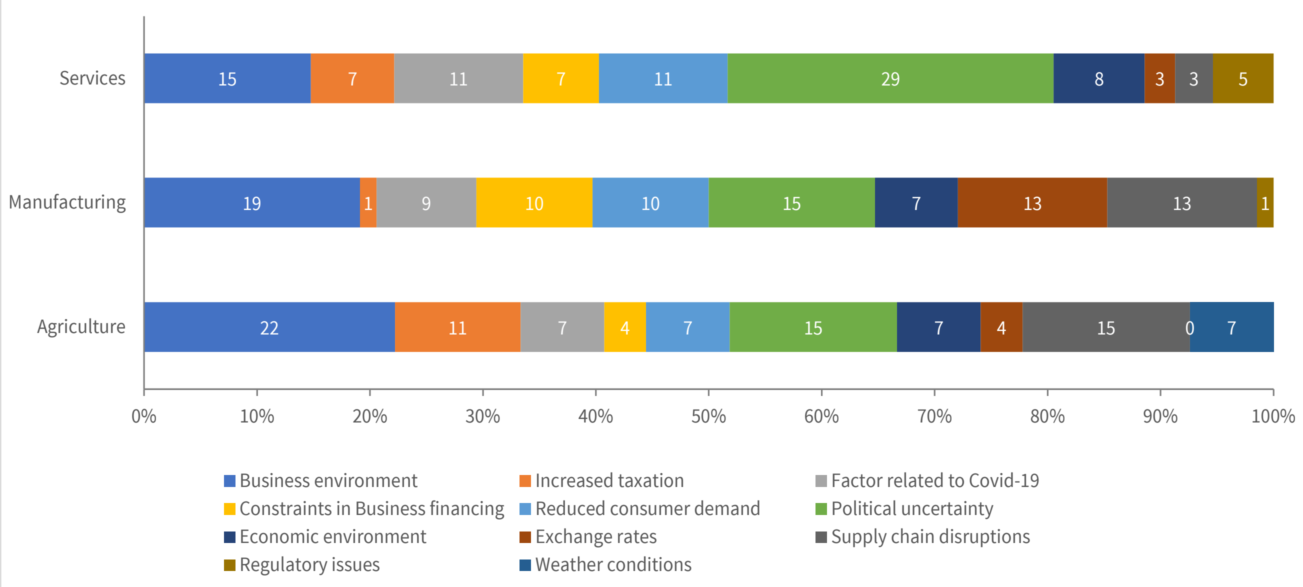
Chart 7: Significant Factors that Constrain Firms' Expansion (percent of respondents)



Increased political activity was of greater concern for firms in the services sector, while for firms in manufacturing and agriculture, the business environment was the greatest concern **(Chart 8)**.

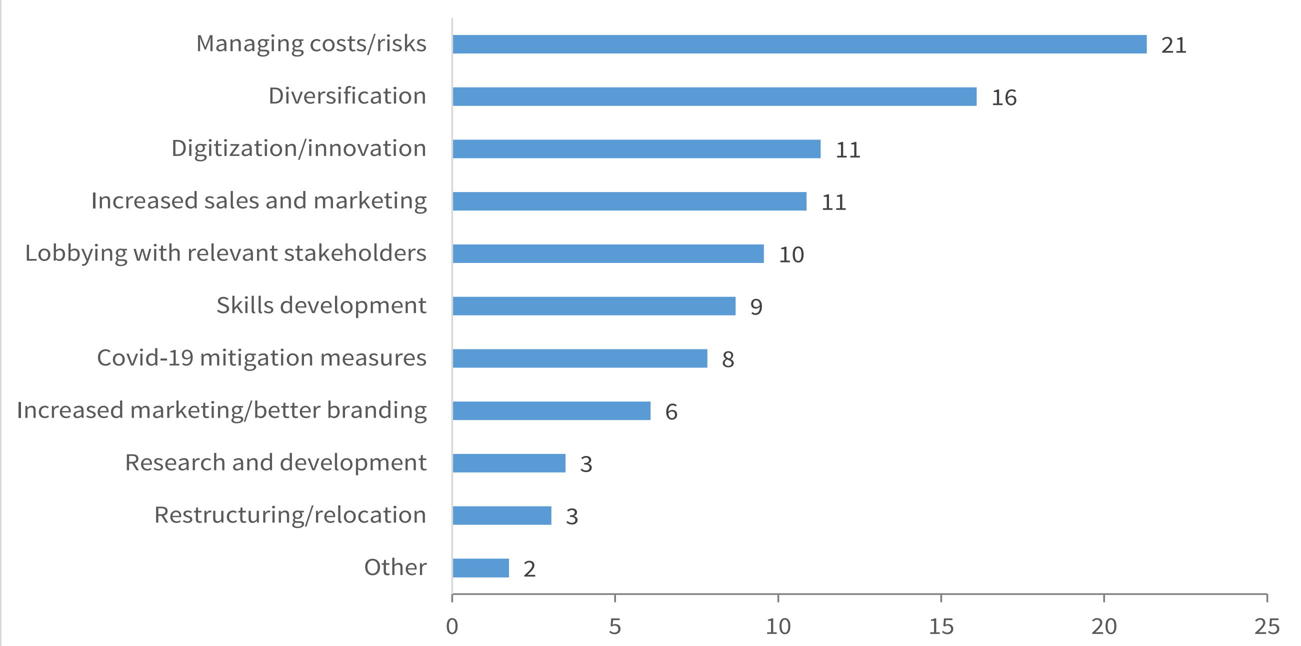
Supply chain constraints also continue to hamper businesses in the manufacturing and agriculture sectors.

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



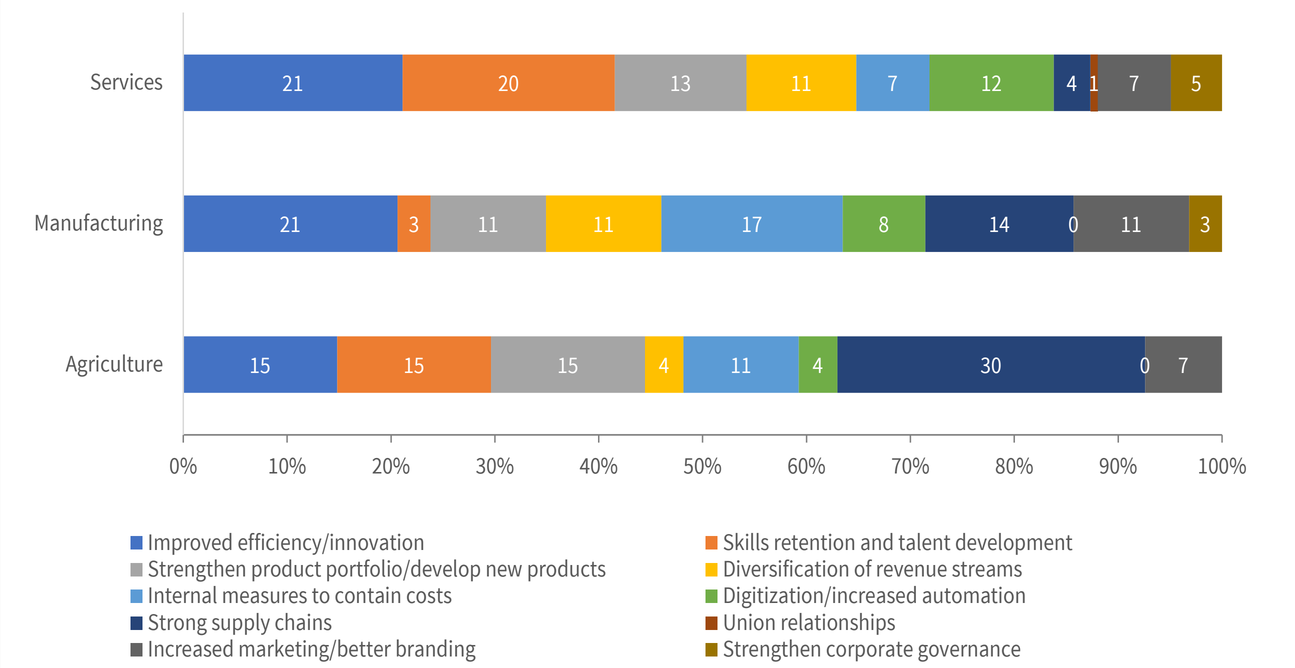
To mitigate the factors constraining growth/expansion, firms proposed: management of costs and risks, diversification as well as digitization **(Chart 9)**.

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



Other important solutions for respective sectors were: lobbying with relevant stakeholders (services sector), increased sales and marketing (manufacturing sector), and skills development/talent retention (agriculture sector) **(Chart 10)**.

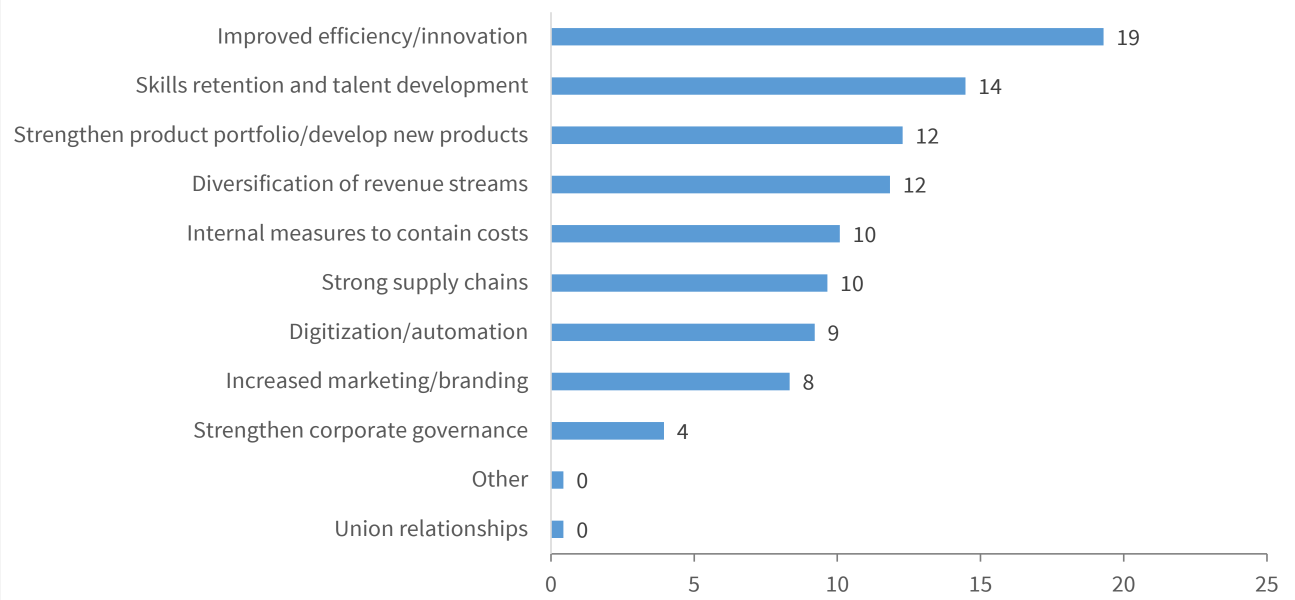
Chart 10: Firms' Proposed Solutions to Factors Constraining Growth by Sector (percent of respondents)



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 improved efficiency and innovation as the main internal factors that could strengthen outlook across all sectors. Skills retention/talent development and diversification of revenue streams also continue to be important internal factors to strengthen outlook for majority of firms **(Chart 11)**.

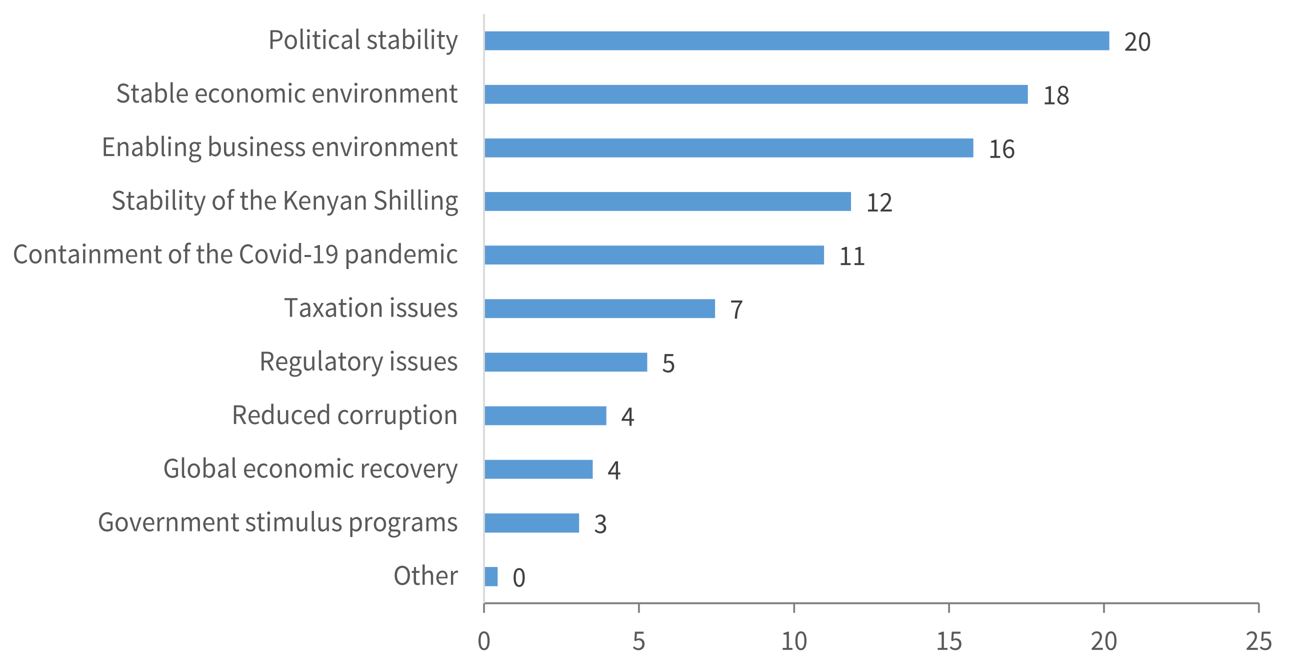
Chart 11: Internal Factors that could Strengthen Firms' Outlook (percent of respondents)



A sectoral analysis of the identified internal factors revealed that strong supply chains was the most important factor for agriculture sector firms. For the manufacturing sector, besides improved efficiency, the next most important factor were internal measures to cost containment. In the services sector, strengthening product portfolio and digitisation were also important factors, with agility and responding to current market needs, in the shortest time possible seen as ways to strengthen firms' outlook.

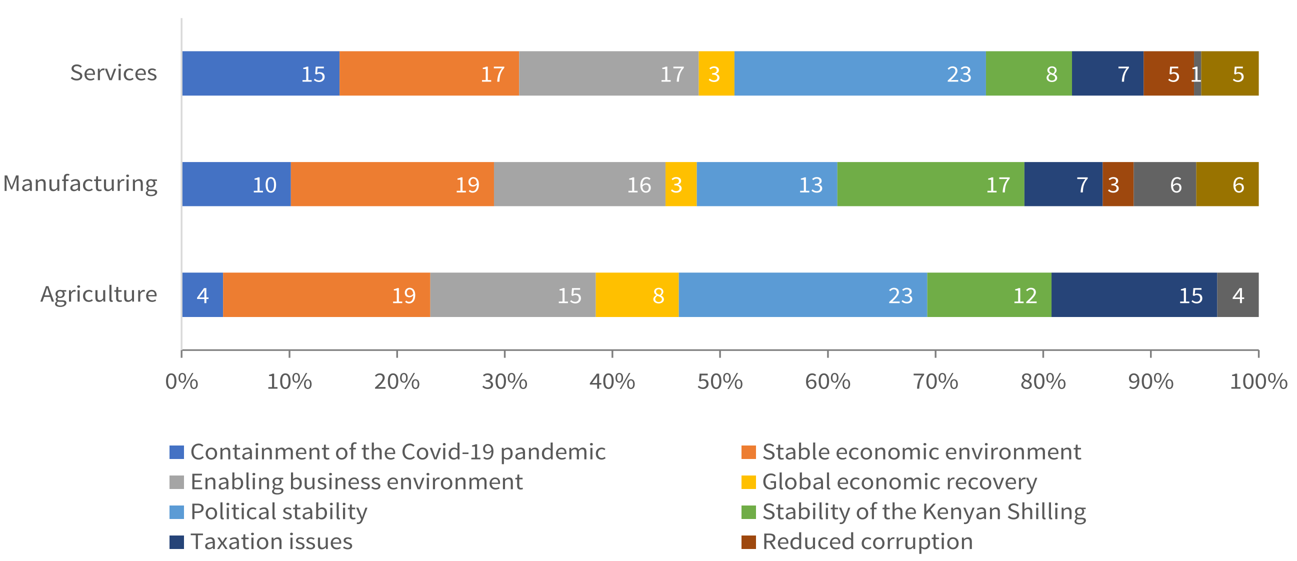
Political stability, a stable economic environment and an enabling business environment were identified as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months **(Chart 12)**.

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 services sectors. On the other hand, stability of the Kenyan Shilling and containment of the COVID-19 pandemic were important factors for the manufacturing sector **(Chart 13)**.

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

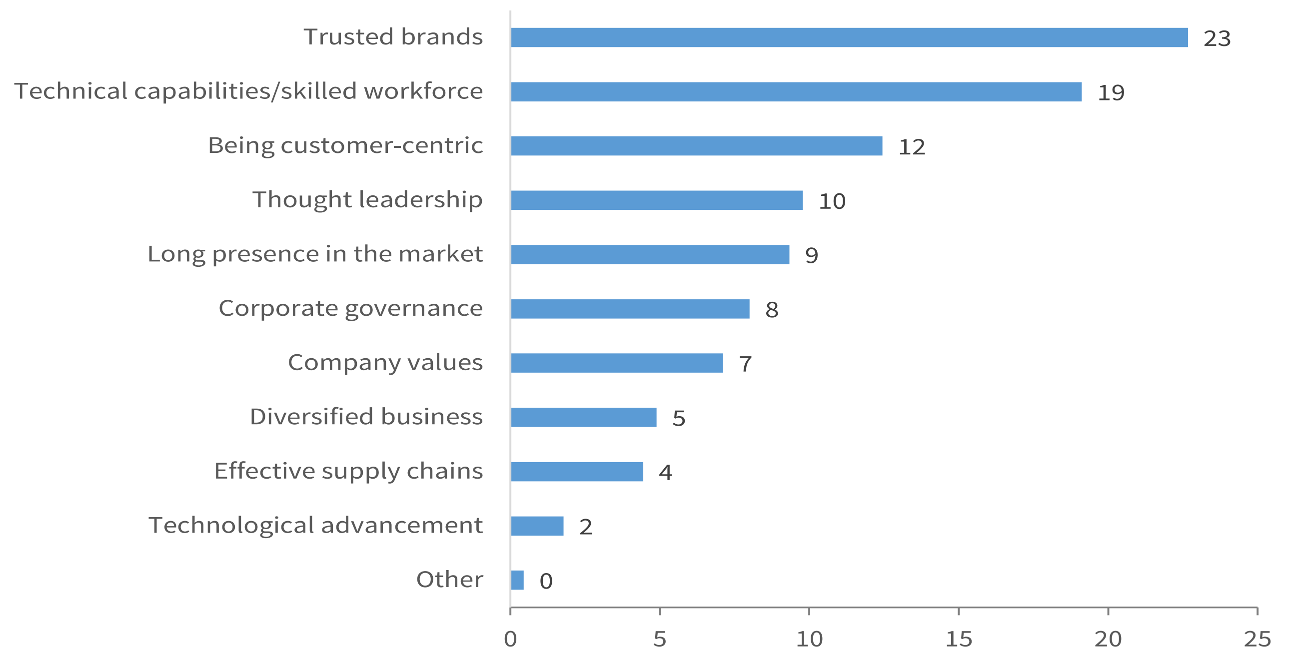


10. TOP COMPANY STRENGTHS

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

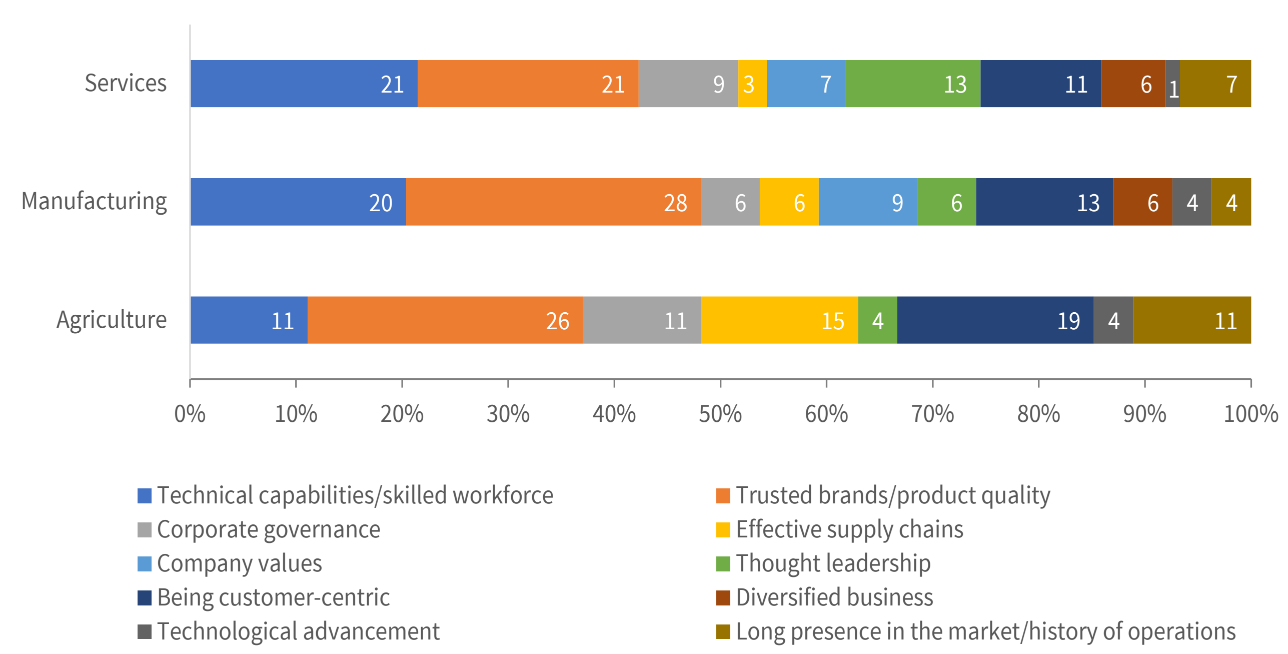
Firms reported trusted brands/product quality, technical capabilities and skilled workforce as well as customer centricity as their top strengths. Equally important are thought leadership and their history/ length of presence in the market **(Chart 14)**.

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



At the sector level, technical capabilities and trusted brands/product quality ranked top for firms in the services and manufacturing sectors, while effective supply chains were key strengths for the agriculture sector firms. Also important for the same sectors was customer centricity **(Chart 15)**.

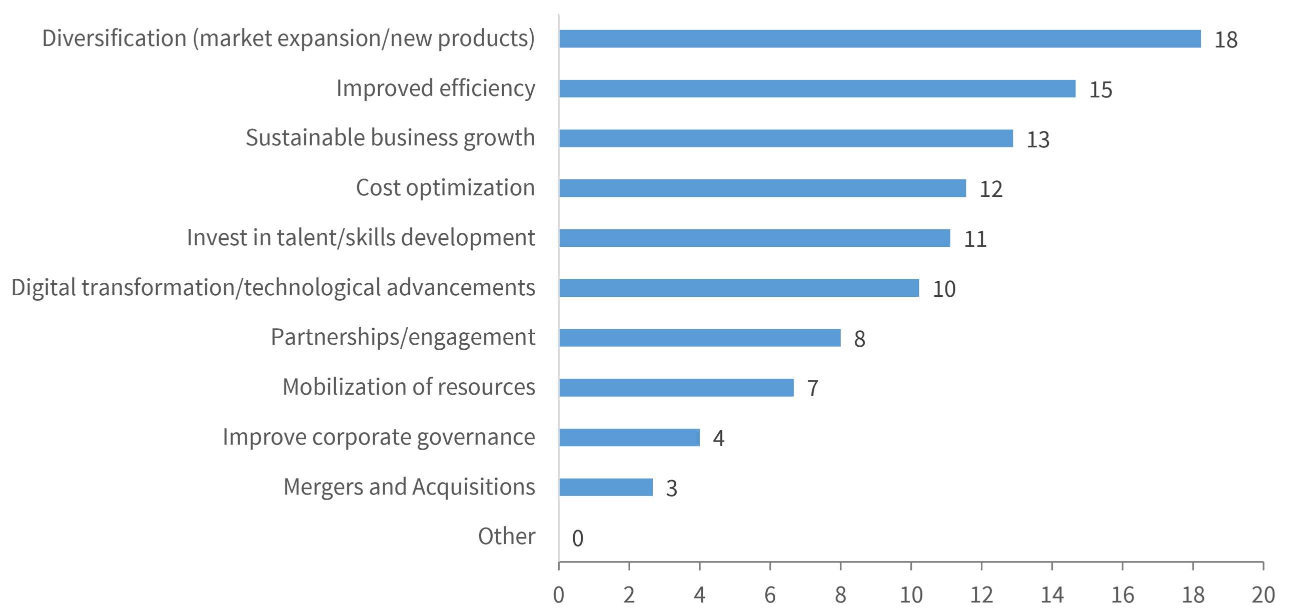
Chart 15: Firms' Top Strengths by Sectors (percent of respondents)



11. STRATEGIC PRIORITIES

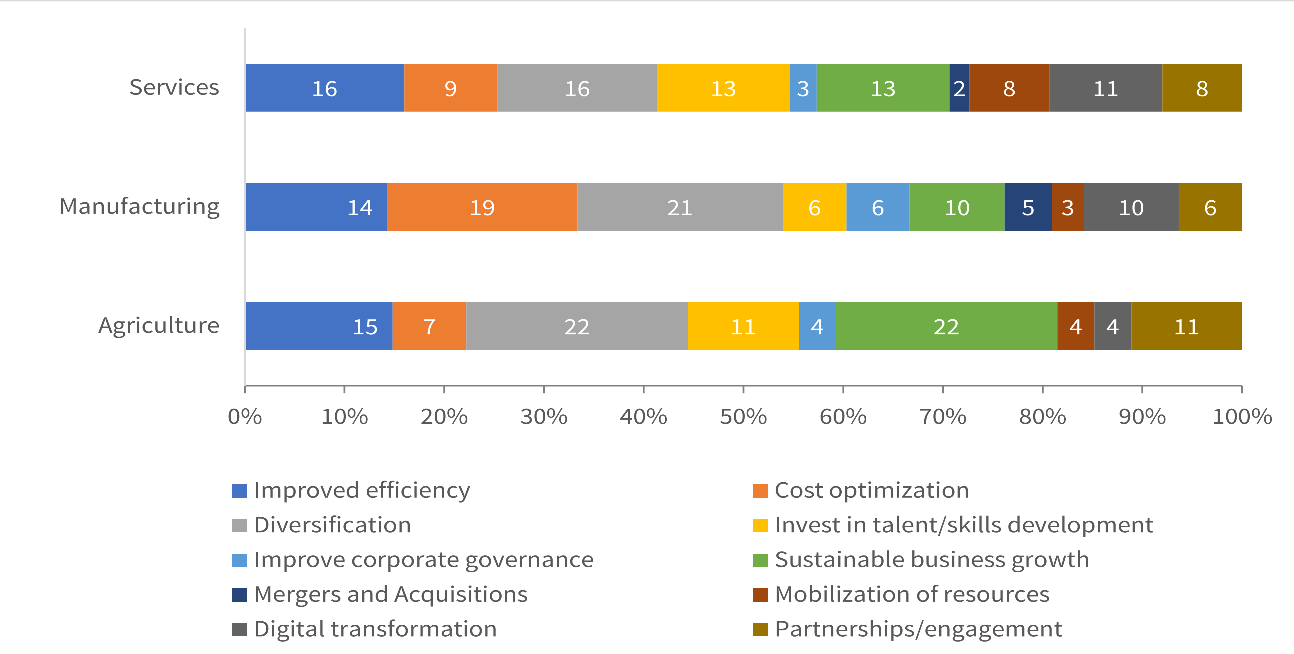
The Survey concluded by enquiring of respondents their strategic priorities over the next three years. The Survey revealed that firms' strategies over the medium-term have remained consistent since March 2021. Businesses plan to diversify, improve efficiency and grow their businesses sustainably **(Chart 16)**.

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



Besides diversification and improved efficiency which were ranked as top priorities by firms in the services sector, investing in skills development was also a priority for these firms **(Chart 17)**. Cost optimization and diversification were important priorities for the manufacturing sector while for the agricultural sector, top priorities included diversification, and sustainable business growth.

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



12. CONCLUSION

The January 2022 Survey revealed continued business optimism about growth prospects, largely driven by the services sector. This optimism was mainly attributed to improved consumer demand, lower inflation and lifting of the COVID-19 restrictions. Respondents, particularly in the agriculture and manufacturing sectors, cited concerns over rising input costs (especially imports); global supply chain disruptions; and increased political activity which could lead to scaling down of operations as businesses adopt a '*wait and see*' approach to investments.

Business leaders reported continuing improvement in business activity, notably in sales growth on account of strong business prospects especially for professional services, spill overs of some sales from 2021 Q4 into 2022 Q1, and increasing business opportunities in the region. Nonetheless, consumer demand and production volumes remained largely unchanged for a large proportion of respondents, due to: stable demand following easing of COVID-19 restrictions, seasonality, and minor disruptions due to COVID-19 measures (e.g. border closures by other countries in the East African Community (EAC) region.

The CEOs remain optimistic about business activity in 2022 Q2 and expect this to mirror the 2022 Q1 performance. Respondents expect that increased political activity will leave business activity at largely the same level as Q1 2022. Further, respondents expect higher input prices to persist especially for imports where supply chain constraints will continue.

Besides the increased political activity, concerns over the COVID-19 pandemic ticked up marginally. Respondents also expect to mitigate constraints in the economic environment by managing costs and risks, diversifying their businesses and digitising their operations. 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 over the next 12 months.

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	☐	Less than KSh 250 million	☐
Between 100 – 250	☐	Between KSh 250 million and KSh 750 million	☐
Between 251 – 500	☐	Between KSh 751 million and KSh 1 billion	☐
Between 501 – 1000	☐	Between KSh 1 billion and KSh 5 billion	☐
Over 1000	☐	Over KSh 5 billion	☐
Other (please specify)		Other (please specify)	

v) What is the ownership structure of your company?	
Privately-owned Domestic	☐
Privately-owned Foreign	☐
Publicly listed Domestic	☐
Publicly listed Foreign	☐
Government-owned	☐
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			
	Reasons for these views on growth prospects?			
	B. OUTLOOK ON BUSINESS ACTIVITY			
2.	a) How would you rate the following performance indicators during **Quarter 1, 2022 (January – March)** compared with **Quarter 4 2021 (October-December)**?			
		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 **<u>Quarter 2, 2022 (April-June)</u>** <u>compared to</u> **<u>Q1 2022 (January-March)</u>?**			
		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 **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?

- ______________________________
- ______________________________
- ______________________________

Central Bank of Kenya

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