



Central Bank of Kenya

Monetary Policy Committee CEOs Survey

May 2021



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1. BACKGROUND

The Central Bank of Kenya (CBK) introduced a Chief Executive Officers' (CEOs) Survey in March 2021, with the objective of capturing information on top firms' perceptions, expectations and decisions and supporting key policy decisions, including monetary policy. The Survey supplements the Monetary Policy Committee (MPC) Private Sector Market Perceptions, and Survey of Hotels. The results of Survey provide valuable input to the Monetary Policy Committee (MPC) at its meetings. Following the inaugural Survey, CBK decided to henceforth conduct bi-monthly CEOs Surveys prior to each MPC meeting.

The Survey sought CEOs views on selected indicators including business confidence/optimism, previous quarter business activity, and outlook for business activity in the near term. The survey also sought to establish the key internal and external factors that could influence the business outlook, and strategic priorities over the medium-term.

The Survey targeted CEOs of key private sector organizations including members of the Kenya Private Sector Alliance (KEPSA) and the Kenya Association of Manufacturers (KAM). The sectors covered by the Survey include 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 GDP.

2. INTRODUCTION

The second CEOs Survey was conducted between May 7 and 14, 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 of the Kenyan and global economies over the next 12 months. In addition, the Survey interrogated CEOs on business activity in 2021 Q2 compared to 2021 Q1, and their expectations for economic activity in 2021 Q3. The Survey also sought to obtain the key concerns and significant factors likely to affect business expansion/growth in the next one year (May 2021 – April 2022), as well as the strategic directions and solutions to address their key challenges over the medium term (May 2021 – April 2023). This report provides a summary of the findings of the Survey.

3. SURVEY METHODOLOGY

The Survey targeted CEOs of 230 private sector firms comprising members of the KAM and KEPSA through questionnaires administered via email, and through a direct online survey. The Survey had a response rate of 23 percent. Forty-six percent of respondents were repeat respondents, having participated in the March 2021 survey. The respondents were from the manufacturing, agriculture, financial services, professional services, real estate, media, transport and storage, wholesale and retail trade and tourism sectors. Most of the respondents (81 percent) were privately owned businesses, while the rest were publicly listed companies and government-owned businesses. About half of the respondents (51 percent) had a turnover of over Ksh 1 billion in 2019. In terms of employment, 33 percent of the respondents employed between 100 – 500 people, while 21 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 takeaways from the May 2021 CEOs Survey include:

- Respondents in the May 2021 CEOs Survey were optimistic about growth prospects in the next 12 months, for their companies, sectors, and the global economy. This optimism was mainly attributed to post COVID-19 bounce-back, businesses shifting to more digitization and anticipated increase in exports following improved relations in the East African Community (EAC) countries. The higher growth prospects were strongest in the services and manufacturing sectors where respondents reported a general upward trend in business activity.
- Growth prospects for the Kenyan economy were mixed. While there's a gradual pick up in business activity, concerns abound mainly with regard to the continued effects of the COVID-19 pandemic.
- Business activity indicators for Q2 2021 showed a gradual pickup compared to Q1 2021, especially with the easing of lockdowns in the five counties. However, respondents were concerned about delayed government payments.
- Majority of businesses were optimistic about higher business activity for Q3 2021 compared to Q2 2021. Respondents reported expected an

increase in all the analysed business activity indicators, except for the number of employees which was expected to remain at the 2021 Q2 levels for most businesses.

- Across all sectors, the business environment, COVID-19 related issues and business financing were identified as the most significant factors that could constrain expansion/growth of private sector firms over the next 12 months. The business leaders indicated that improved efficiency, skills retention and improvement of product portfolio were key internal factors that could strengthen their outlook. Externally, respondents indicated that an improved regulatory environment/tax regime, a stable economic environment and easing of the cost of doing business could strengthen the outlook of their firms over the same period.
- CEOs are most concerned about a challenging business environment, regulatory environment and economic performance. Compared to March 2021, there's also increased concern over the COVID-19 pandemic with fears over the possibility of a fourth wave with probability of new variants which would lead to more lockdowns and dampen investor confidence.
- The business leaders indicated that they would leverage on their firms' top strengths, which they identified as technical capability/skilled workforce, company values, and strong/trusted brands, to address their most urgent concerns. Nonetheless, they would like the government to continue improving the business environment.
- Compared to the March 2021 Survey, there is minimal change in terms of strategic direction over the next three years. Business leaders plan to expand into new markets, develop new products, and diversify and improve efficiency of their operations.

5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

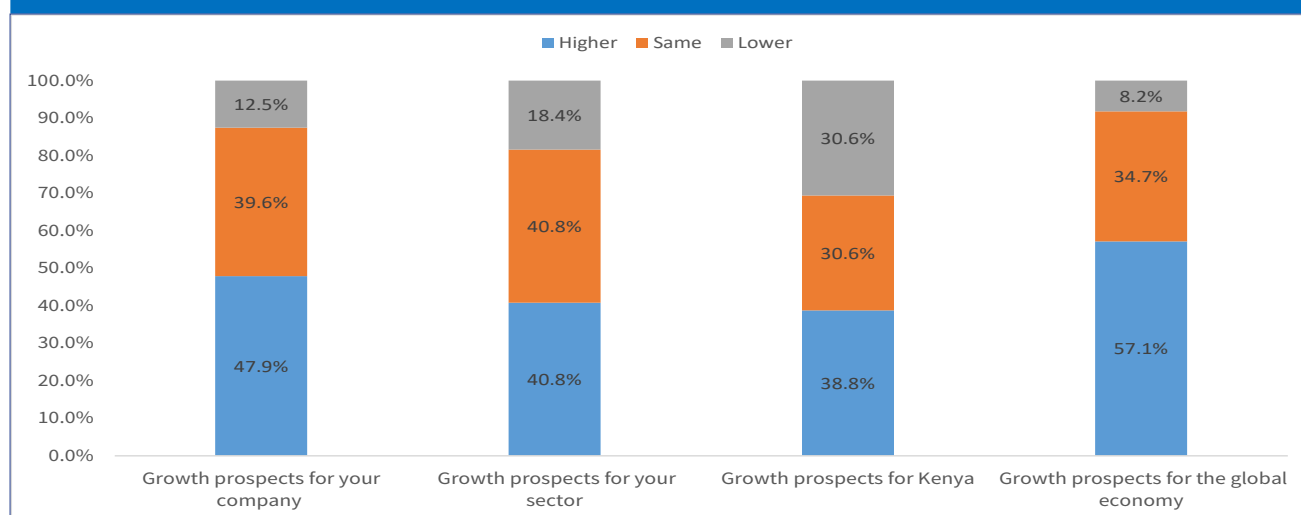
The Survey assessed the CEOs optimism in the growth prospects of their companies, sectors, and the Kenyan and global economies over the next 12 months. Respondents were optimistic about higher growth prospects of their own companies, their sectors and the global economy (**Chart 1**).

The optimism was mainly driven by the services (professional, media, wholesale/retail, financial and ICT/telecommunications sectors) and manufacturing sectors due to post COVID-19 bounce back, businesses shifting to more digitization and anticipated increase in exports following improved relations in the East African Community (EAC) countries.

About 37 percent of respondents do not expect a change in growth prospects over the next 12 months citing the continued effects of the pandemic, reduced purchasing power of consumers, increasing commodity prices as well as possibility of tax increases that could further erode consumer purchasing power.

The Survey revealed that business confidence in the Kenyan economy, compared to the growth for the other indicators were mixed, with 31 per cent expecting lower growth. Respondent noted that businesses are still reeling from the effects the COVID-19 pandemic. Coupled with uncertainty over how a fourth wave could pan out, respondents indicated that it may take another six months before the situation improves. This is particularly so for sectors such as tourism which depend on foreign economies, several of which remain depressed with

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



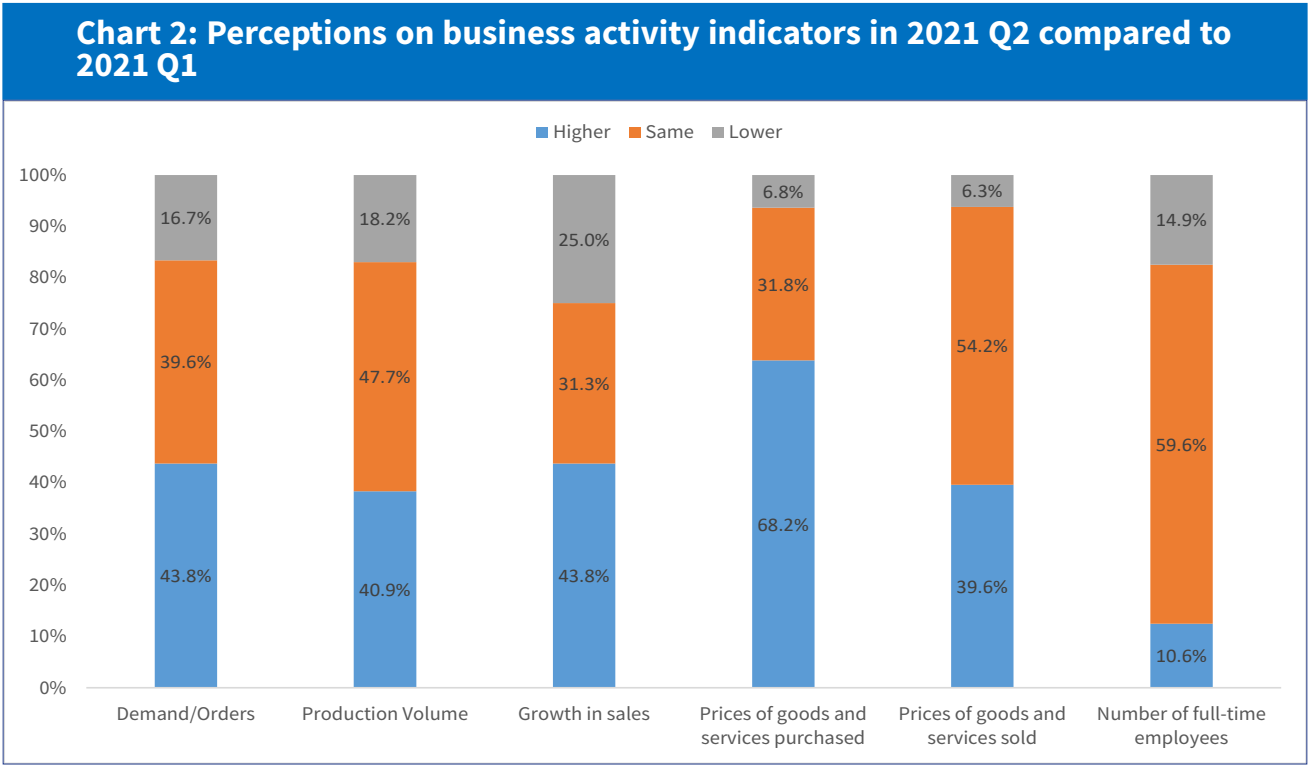
the gradual lifting of restrictions on international travel. Furthermore, some respondents reported a wait and see attitude of the final outcome of the Finance Bill 2021 with regard to the likely impact of any newly introduced taxes.

6. PERCEPTIONSONBUSINESSACTIVITY
IN 2021 Q2 COMPARED TO 2021 Q1

The Survey sought CEOs perceptions on business activity in the second quarter of 2021 compared to the first quarter of 2021. The observed performance of business activity indicators for Q2 2021 was consistent with the business leaders’ expectations expressed in the March 2021 Survey. While majority

of firms reported higher demand/orders and growth in sales, production volumes remained the same for most firms. The CEOs reported higher prices of goods and services purchased particularly of commodity and fuel prices, consistent with expectations expressed in the March 2021 Survey.

A majority of firms maintained the same prices of goods and services sold as in the first quarter of 2021 (Chart 2). Firms reported that demand was slowly edging up especially with the easing of lockdowns measures in the five counties. However, CEOs were concerned over delayed government payments. The number of full-time employees remained the same for a majority of respondents with some reporting increased digitization and some still restructuring.



The Survey findings indicate that demand/orders were especially higher for the respondents in the services and manufacturing services sectors (**Chart 3**), which was also the case for production volumes (**Chart 4**). This was largely attributed to the reopening of the economy.

Most respondents indicated that the prices of goods and services purchased was higher in 2021

Q2 compared to 2021 Q1. As was the case in the March Survey, the increase was mainly reported by respondents in the manufacturing sector, and was attributed to high cost of materials, notably, a general upward trend in prices of many imported goods, rising taxes and fuel prices in the coming month and high freight costs making the cost of production the highest witnessed in recent years.

Chart 3: Perceptions on demand/orders in 2021 Q2 compared to 2021 Q1 by Sectors

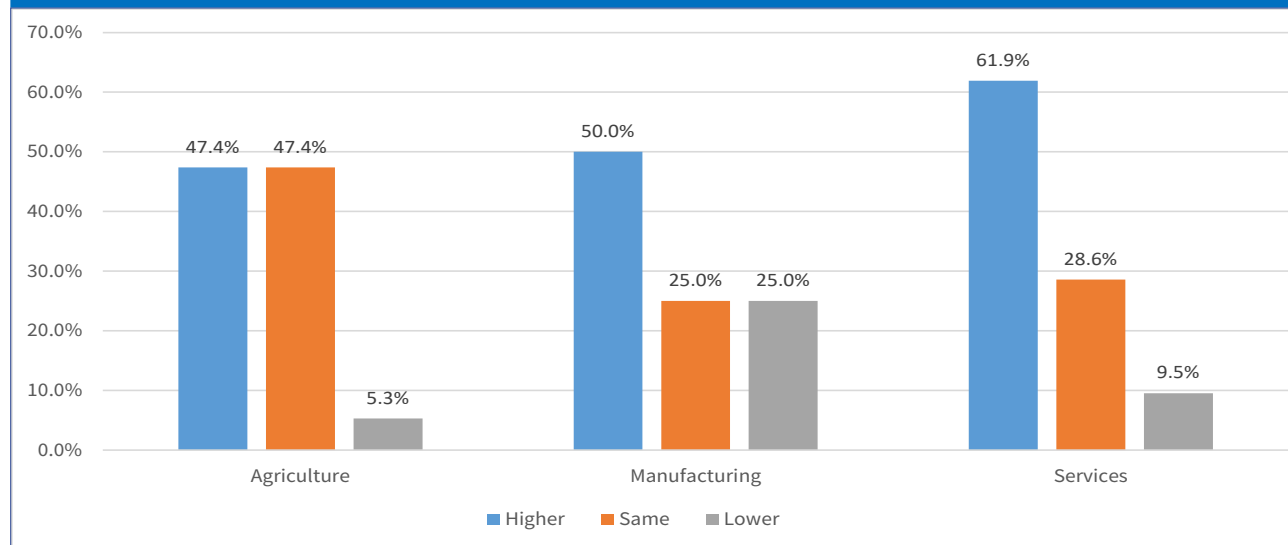
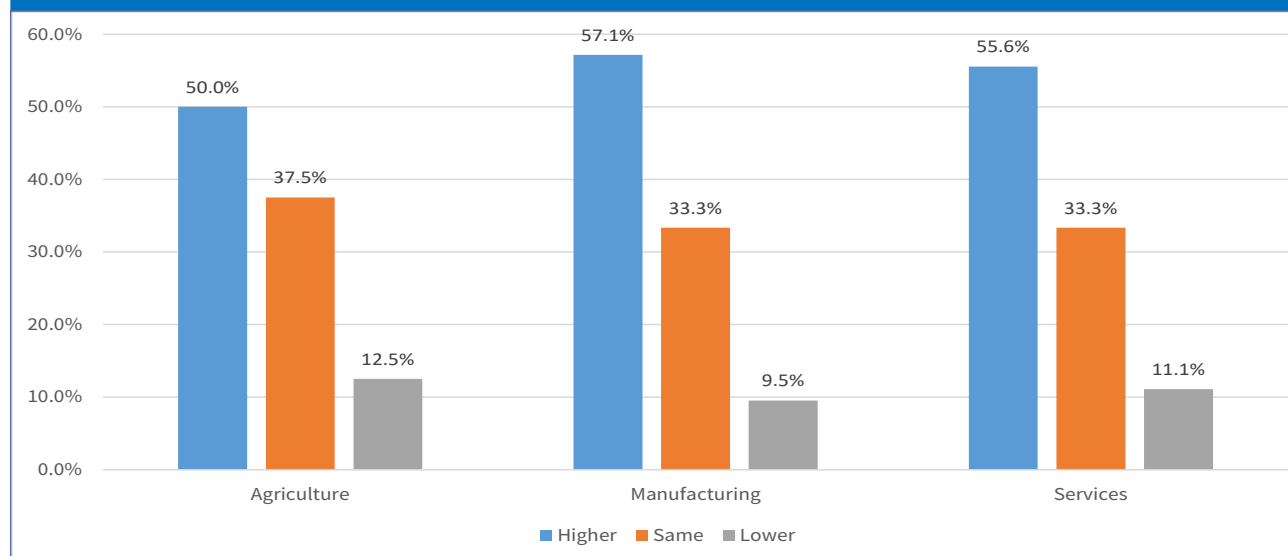


Chart 4: Perceptions on production volume in 2021 Q2 relative to 2021 Q1 by Sectors

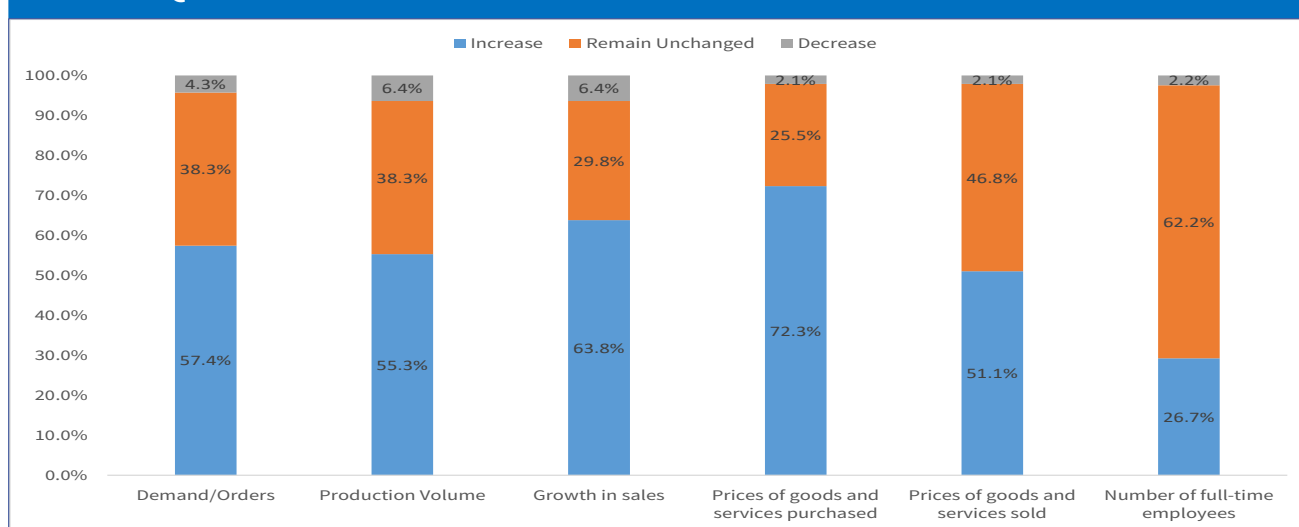


7. OUTLOOK FOR BUSINESS ACTIVITY IN 2021 Q3 COMPARED TO 2021 Q2

The Survey sought CEOs expectations of business activity in the third quarter of 2021 relative to the second quarter. Most CEOs expect business activity to strengthen in 2021 Q3 (**Chart 5**). Respondents in the services and manufacturing sectors were the most optimistic with majority reporting a general upward trend in business activity. For the respondents who expect decreased demand/orders, production volumes and growth in sales, this is explained by their traditional business cycles where a slowdown

in business is experienced in the year preceding an election, however the numbers are negligible. Respondents who expect increases in the prices of goods and services purchased/sold cited increases in the cost of raw materials. With regard to the number of employees, most respondents expect that this will remain at the same level. Some firms that were affected by the recent partial lockdowns reported reduced activities, which could affect staff numbers in 2021 Q3.

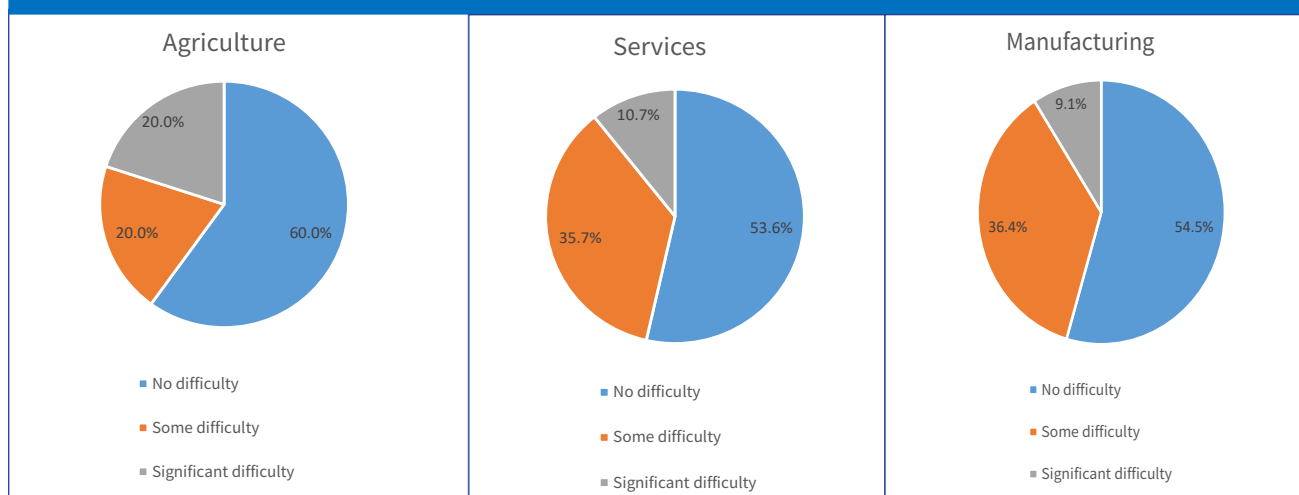
Chart 5: Expected change in business activity indicators in 2021 Q3 compared to 2021 Q2



In terms of operating capacity, the Survey findings show that most respondents reported that their firms 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 (inability to quickly source required raw materials) and to a lesser extent, challenges in obtaining the required financing.

Chart 6: Potential level of difficulty in meeting increased demand or sales

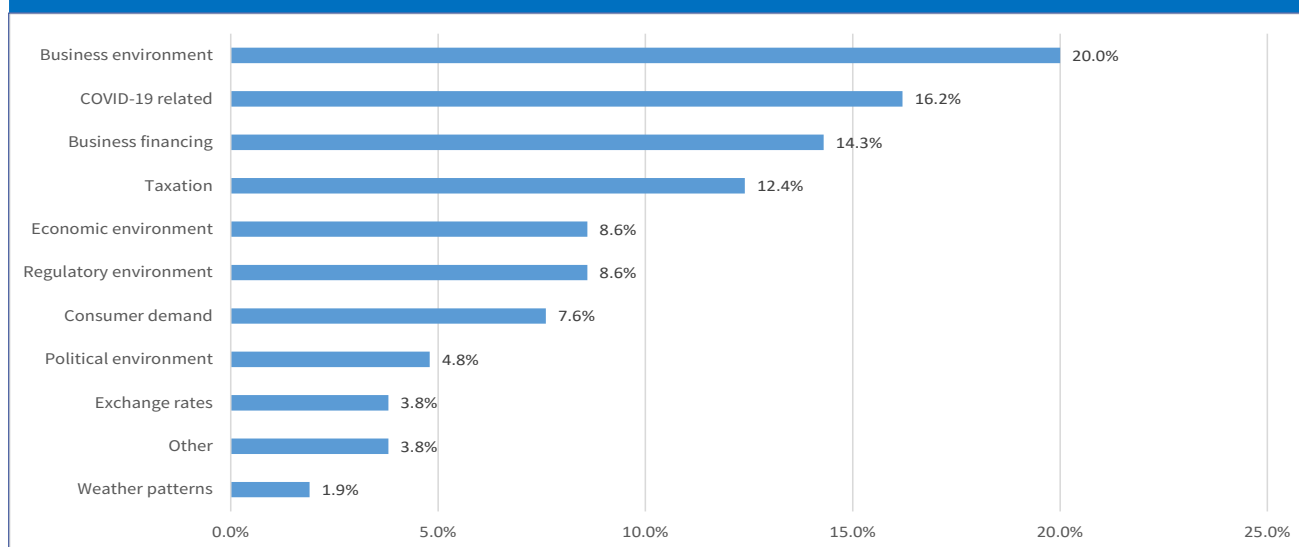


8. FACTORS CONSTRAINING EXPANSION OVER THE NEXT 12 MONTHS

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. There's consistency in the CEOs assessment of the business horizon. Across all sectors the results reflects to a large extent those of the March 2021 Survey, with respondents citing the business environment (high prices of raw materials and low prices of

manufactured goods; rising fuel prices); COVID-19 related concerns (another wave/variants which would cause more lockdowns and dampen investor confidence); business financing (including cost of credit, liquidity constraints, delays in government disbursements); and taxation (high taxes, delays in processing refunds) **(Chart 7)**.

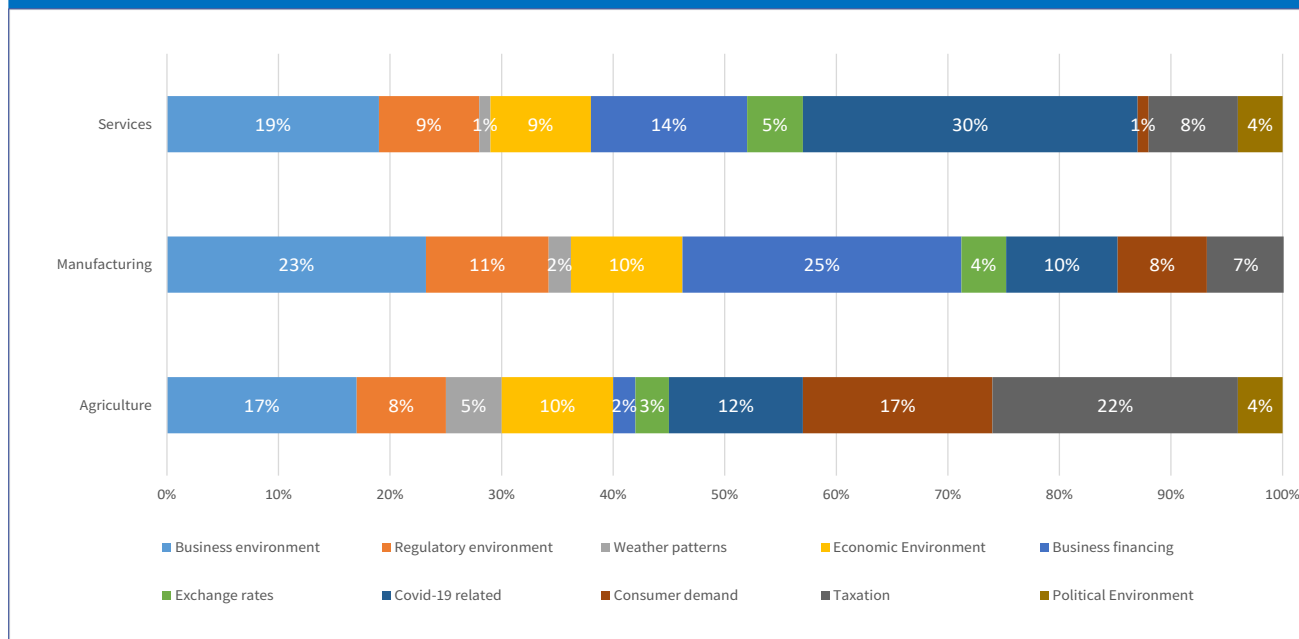
Chart 7: Significant factors that constrain firms' expansion



For respondents in the manufacturing sector, factors relating to the business financing and business environment ranked highly **(Chart 8)**. COVID-19 related concerns were a significant factor

for respondents in the services, whereas business environment, weather patterns and consumer demand were most important for respondents in the agriculture sector.

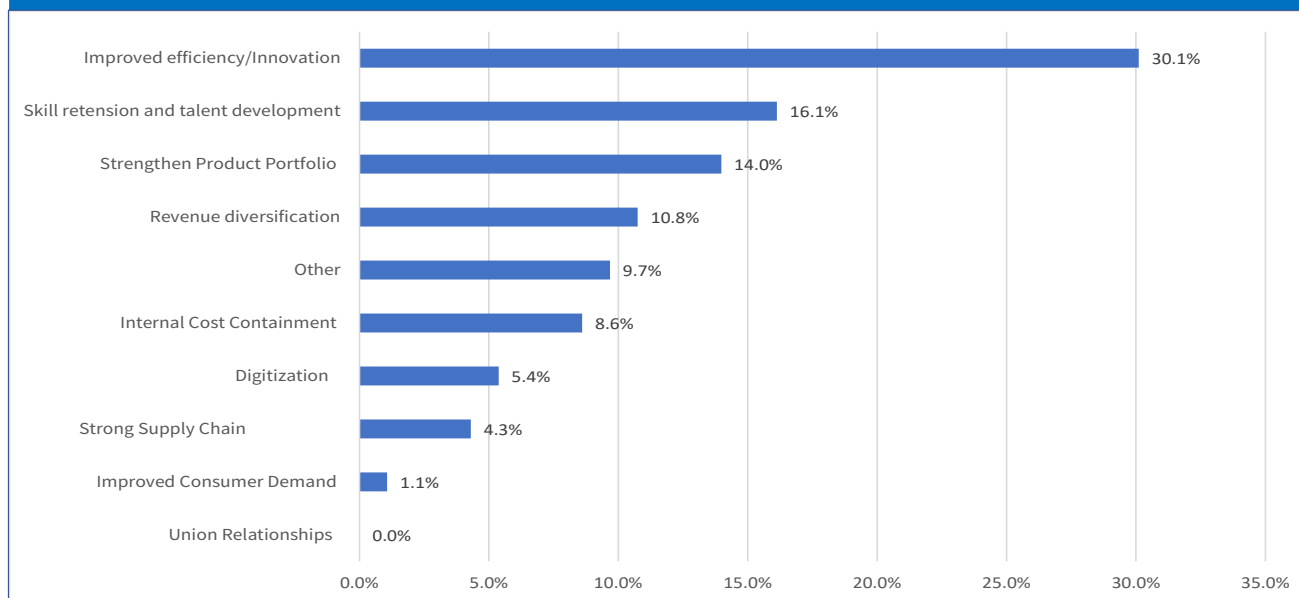
Chart 8: Significant factors that constrain firms' expansion by Sectors



The Survey sought to establish internal factors that could support business expansion over the next 12 months (**Chart 9**). The Survey results indicated improved efficiency and innovation as the main factor

in all sectors. Skills retention/talent development continues to be an important factor for several firms, pointing to the importance of good internal capacity for firms' expansion.

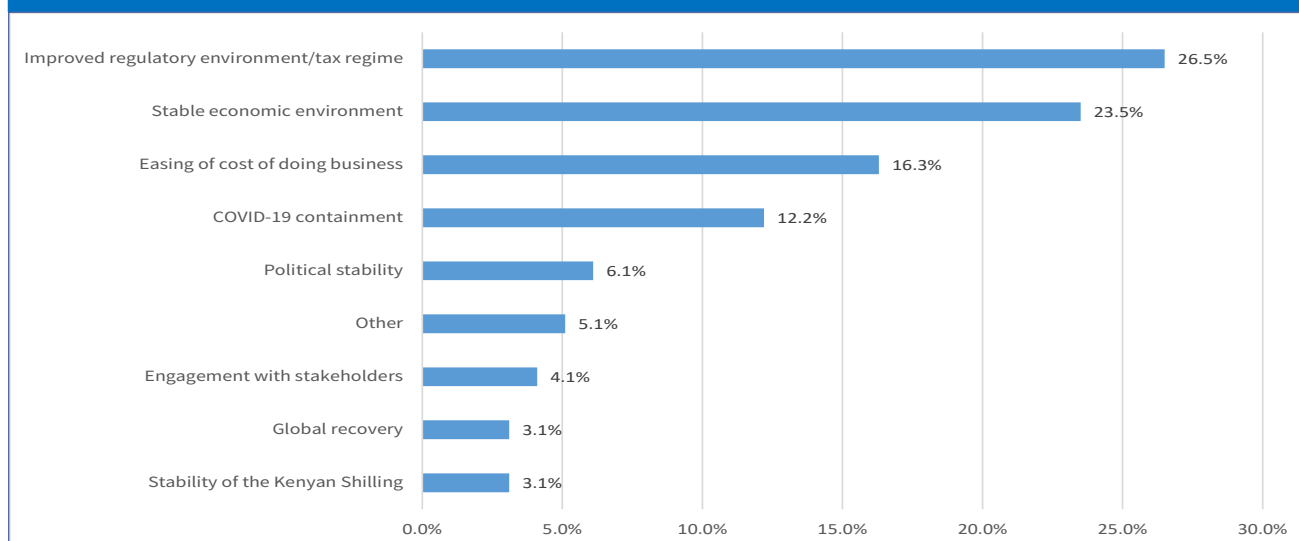
Chart 9: Internal factors that could strengthen firms' outlook by sectors



The Survey also sought to establish external factors that could strengthen firms' outlook over the next 12 months (**Chart 10**). An improved regulatory environment, a stable economic environment and easing of the cost of doing business ranked highest amongst the external factors across all sectors that businesses anticipate could support their outlook in the next 12 months. Key issues that respondents would like addressed in the regulatory environment include: a more predictable tax regime, pro-growth taxation policy and faster processing of tax refunds.

On the economic front, respondents would like to see controlled inflation; increased sectoral lending based on priority sectors identified by the government, stability of the Kenya shilling and reduced lending rates. Elements of the easing of the cost of doing business were similar to the March 2021 Survey and include power costs, transport costs, fuel costs and raw material availability.

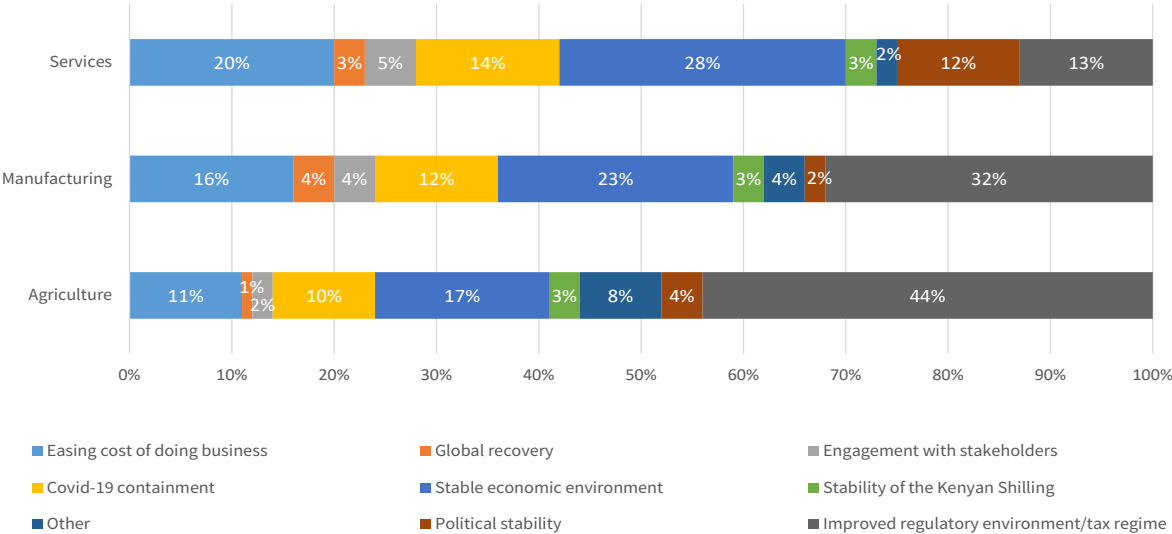
Chart 10: External factors that could strengthen firms' outlook



Across all sectors, improvements in the regulatory environment and economic environment were

indicated as the main factors that could strengthen firms' outlook **(Chart 11)**.

Chart 11: External factors that could strengthen firms' outlook by sectors

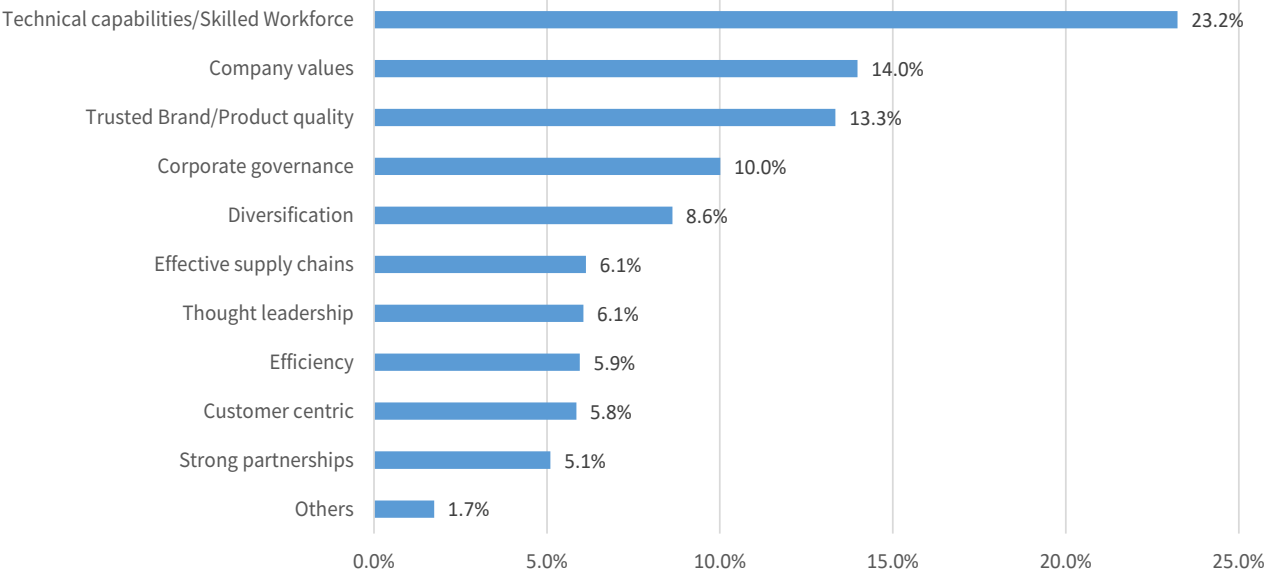


9. TOP COMPANY STRENGTHS, CONCERNS AND PROPOSED SOLUTIONS

The Survey requested respondents to indicate their top company strengths, concerns and proposed solutions to the identified concerns. There were no significant changes with regard to top company strengths in the May compared to the March 2021

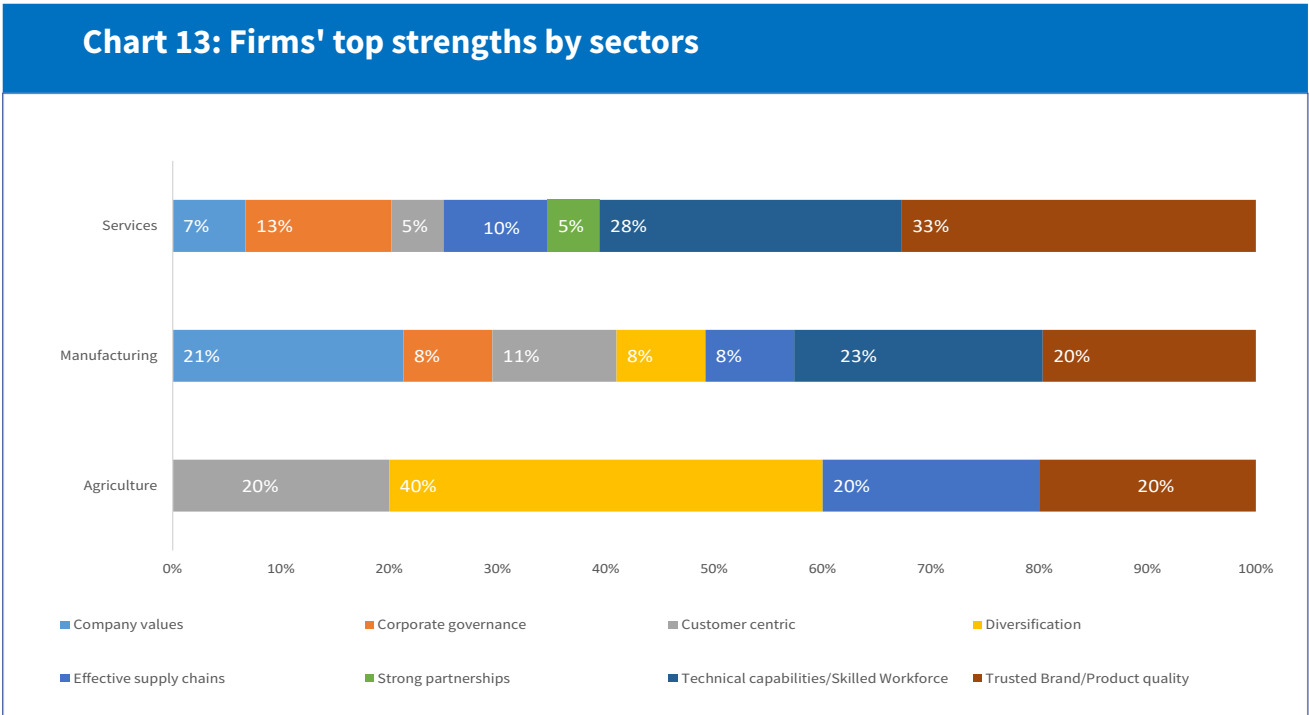
Survey. Most firms continued to report highly skilled workforce as being integral in offering superior customer satisfaction **(Chart 12)**. Trusted brands/ product quality and company values as well as corporate governance were other notable strengths.

Chart 12: Firms' top strengths



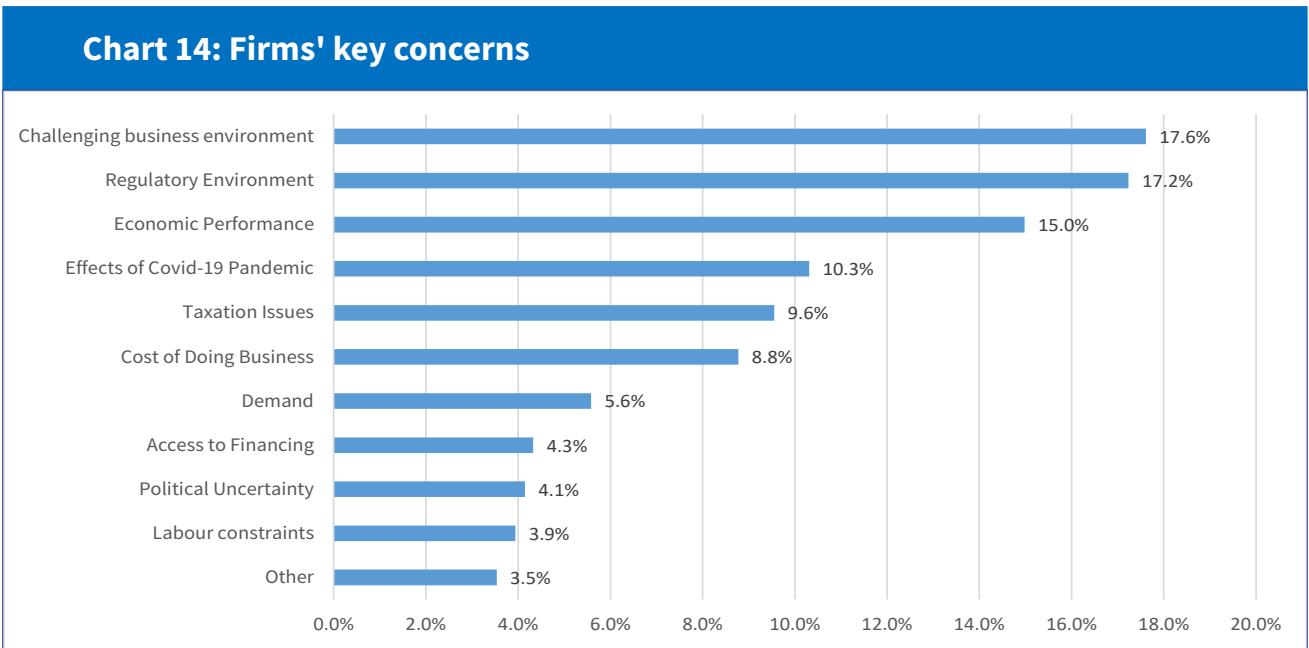
At the sector level, trusted brands and skilled workforce ranked top for the services and manufacturing sector respondents, while

diversification and effective supply chains were key strengths for the agriculture sector **(Chart 13)**.



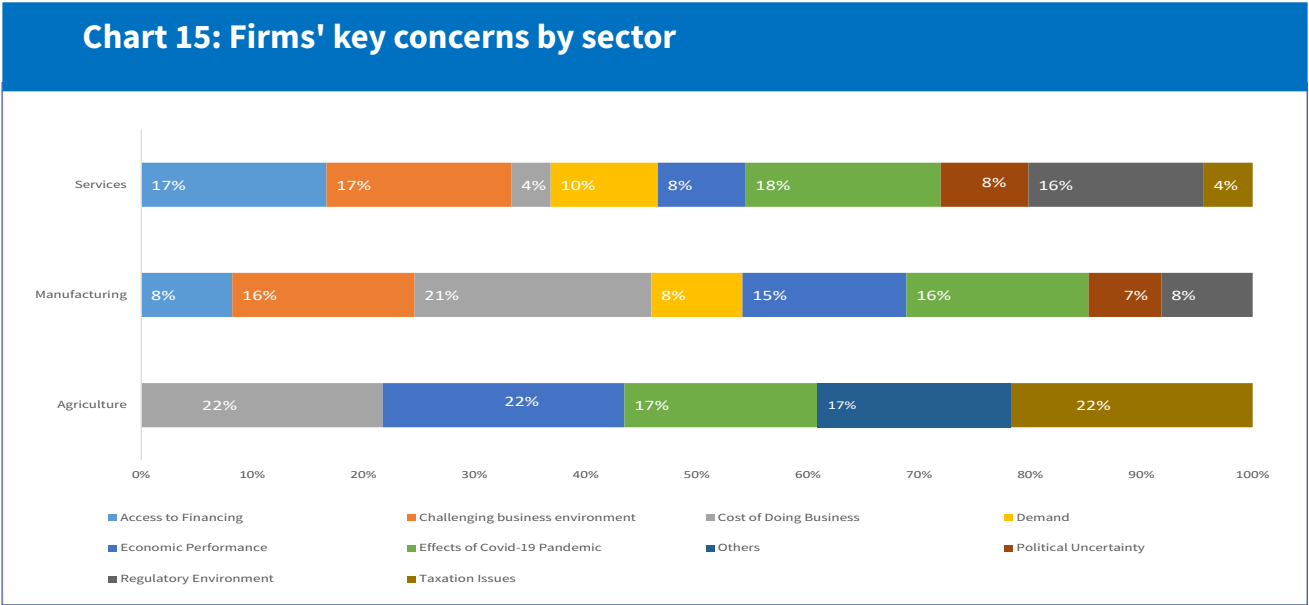
With regard to top company concerns, while a challenging business environment remains the top concern, the regulatory environment has featured more prominently as one of the top three key concerns of CEOs with respondents expressing concern over an unpredictable regulatory environment and frequently introduced taxes/levies. COVID-19 related

concerns are also of greater concern compared to March 2021. Specifically, respondents are concerned about low vaccination rates in Africa, which implies that economies may not rebound as quickly as the rest of the world. **(Chart 14)**.



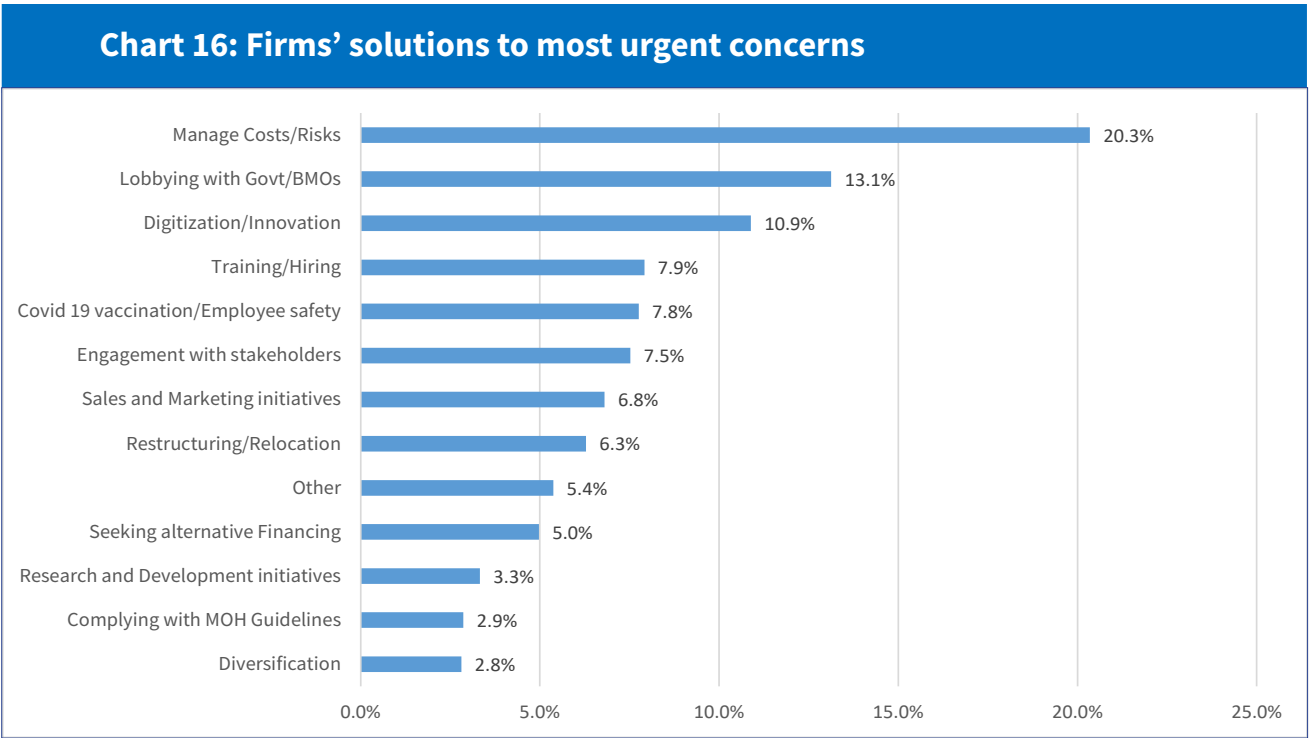
A challenging business environment was of greater concern for respondents in the manufacturing sector, while for the services and agriculture sectors,

top concerns were effects of covid-19 pandemic and cost of doing business, respectively **(Chart 15)**.



To address the challenges and concerns identified in their sectors, most companies plan to adopt strategies similar to those identified in March 2021: manage costs/risks, lobby with relevant stakeholders and digitize/innovate **(Chart 16)**.

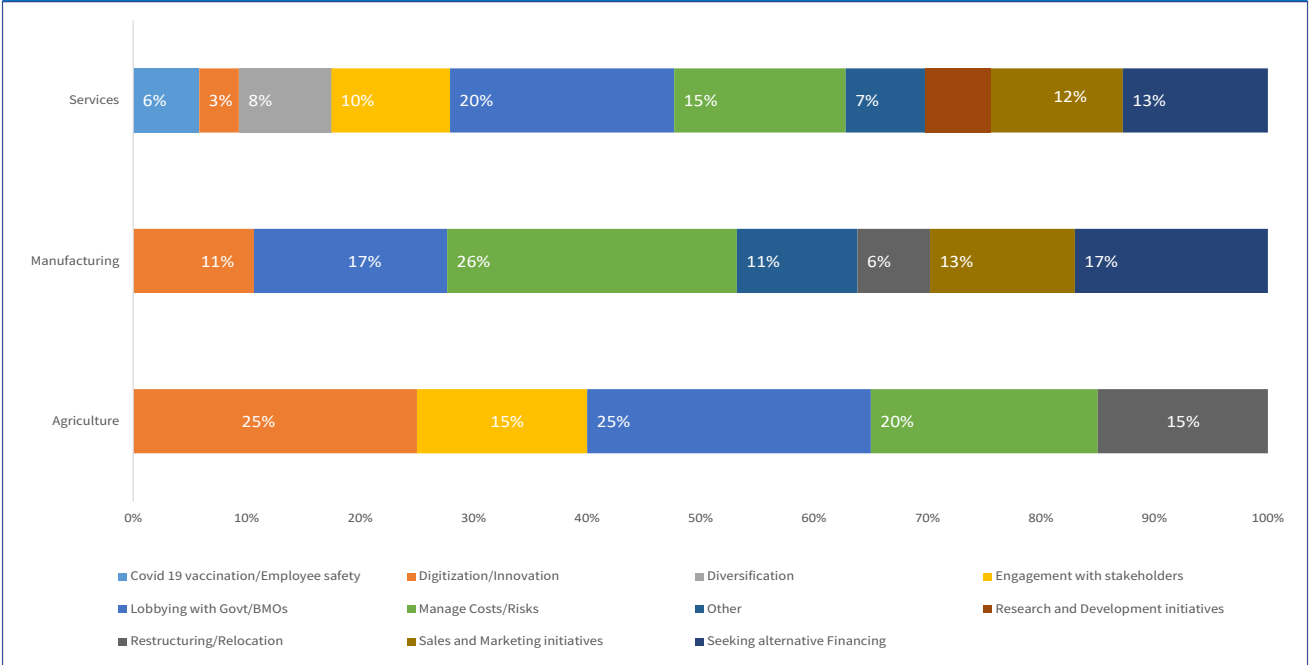
Firms proposed other solutions such as ramping up sales and increased digital marketing efforts to counteract low demand; identifying new sales strategies to boost orders and embracing Kaizen (continuous improvement).



A sector analysis of the proposed solutions by respondents revealed that managing costs and risks was a key solution especially for the manufacturing sector **(Chart 17)**.

In the services sector, lobbying with relevant stakeholders is a key priority mainly to address the cost of doing business.

Chart 17: Firms' solutions to most urgent concerns by sectors

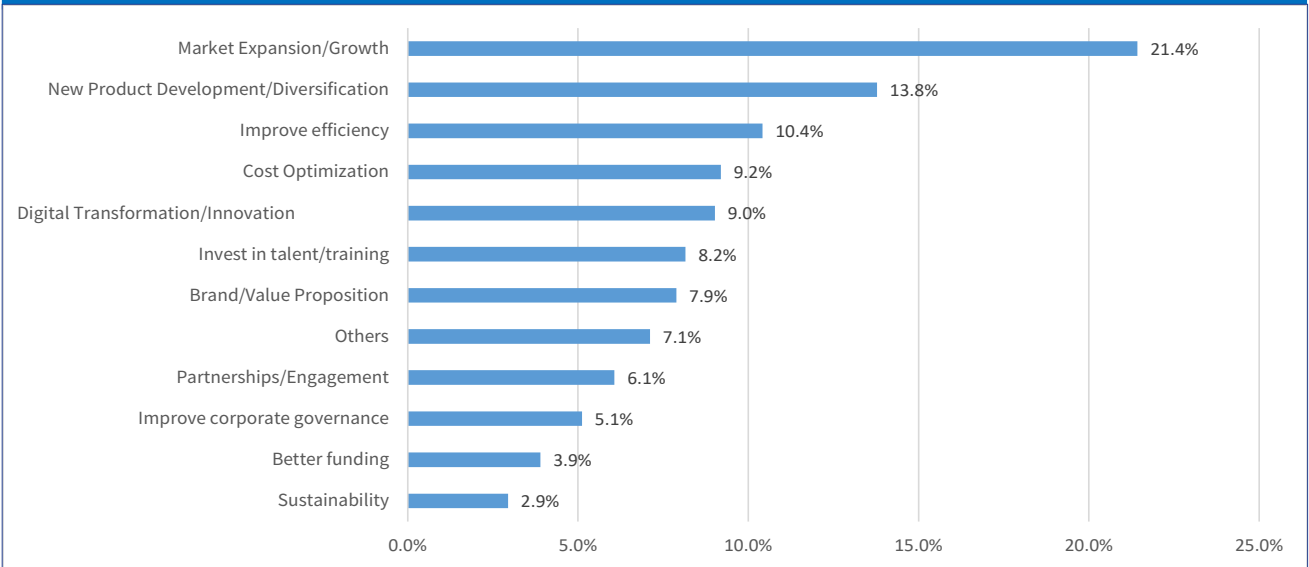


10. STRATEGIC PRIORITIES

The Survey concluded by asking respondents to indicate their strategic priorities over the next three years. There were no significant deviations in business strategies over the medium-term compared to the March 2021 Survey. Businesses plan to expand

into new markets, develop new products and improve efficiency **(Chart 18)**. Market expansion and digital transformation/innovation were important strategies especially for respondents in the services sector. For the manufacturing sector, brand value proposition is key while in the agriculture sector, cost optimization ranks highest.

Chart 18: Firms' strategic priorities



11. CONCLUSION

The May 2021 Survey revealed increased optimism by responding CEOs about the growth prospects for their companies, sectors, and the global economies, while business confidence in Kenyan growth prospects was mixed. This optimism was mainly attributed to expected post COVID-19 bounce-back, businesses shifting to more digitization and anticipated increase in exports following improved relations in the EAC countries. The higher growth prospects were strongest in the services and manufacturing sectors where respondents reported a general upward trend in business activity.

Business leaders reported a recovery in business activity in 2021 Q2 relative to 2021 Q1. Observed performance of business activity indicators were consistent with the business leaders' expectations expressed in the March 2021 Survey. Most CEOs expect business activity to strengthen in 2021 Q3 with continued reopening of economies and rollout of vaccines. However, the number of employees is expected to remain at the 2021 Q2 levels for most respondents.

There's consistency in the CEOs assessment of the business horizon. Across all sectors the scenario is similar to the March 2021 picture, with respondents citing the business environment, COVID-19 related concerns and business financing as the most significant factors that could constrain expansion/growth over the next 12 months. On COVID-19 related issues, respondents are concerned about the uneven pace of vaccinations which implies that African economies, in particular, may not rebound as quickly as the rest of the world.

To address the challenges and concerns identified in their sectors, most companies plan to adopt strategies similar to those identified in March 2021: manage costs/risks, lobby with relevant stakeholders and digitize/innovate. Business leaders plan to continue leveraging on their firms' top strengths, among them highly skilled workforce which are integral in offering superior customer satisfaction and trusted brands.

In terms of strategic direction over the next three years, there were no significant deviations in business strategies over the medium-term compared to the March 2021 Survey. Businesses plan to expand into new markets, develop new products and improve the efficiency.

GENERAL INFORMATION

i) What is the **name** of your company?

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

iii) Please provide your **contact information**

Telephone number:..... Email:.....

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

| a) The number of employees | b) Annual turnover in 2019 |
|---|--|
| Between 100 – 250 <input style="float: right; margin-right: 10px;" type="checkbox"/> | Between KSh 250 million and KSh 750 million <input style="float: right; margin-right: 10px;" type="checkbox"/> |
| Between 251 – 500 <input style="float: right; margin-right: 10px;" type="checkbox"/> | Between KSh 751 million and KSh 1 billion <input style="float: right; margin-right: 10px;" type="checkbox"/> |
| Between 501 – 1000 <input style="float: right; margin-right: 10px;" type="checkbox"/> | Between KSh 1 billion and KSh 5 billion <input style="float: right; margin-right: 10px;" type="checkbox"/> |
| Over 1000 <input style="float: right; margin-right: 10px;" type="checkbox"/> | Over KSh 5 billion <input style="float: right; margin-right: 10px;" type="checkbox"/> |
| 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)

.....

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

.....

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 over the next 12 months, 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 current performance of business activities? | | | |

| B. OUTLOOK ON BUSINESS ACTIVITY | | | | |
|---------------------------------|---|--------|------|-------|
| 2. | a) How would you rate the following performance indicators during Quarter 2, 2021 (April – June) compared with Quarter 1 2021 (January – March) ? | | | |
| | | 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 recent past performance of business activities? | | | |

| | | | | |
|--|---|----------|------------------|----------|
| | b) How do you expect the indicators below to develop in Quarter 3 2021 (July -September) compared to Q2 2021 (April - June) ? | | | |
| | | 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) | <input type="checkbox"/> |
| Some difficulty (at or near full capacity) | <input type="checkbox"/> |
| Significant difficulty (operating above capacity) | <input type="checkbox"/> |
| Other (please specify) | |
| Any additional comment on operating capacity? | |

C. OUTLOOK ON THE EXTERNAL BUSINESS ENVIRONMENT

4. In your view, **what significant factors would constrain** the expansion/growth of your company over the next 12 months? List 3

- _____
- _____
- _____

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

- _____
- _____
- _____

6. In your view, what **external factors** could strengthen your company's outlook over the next 12 months? List 3

- _____
- _____
- _____

D. STRENGTHS, CONCERNS AND STRATEGIC PRIORITIES

7. What are your company's **top 5 strengths**?
(Please give in order of importance, starting with the most important)

- _____
- _____
- _____
- _____
- _____

8. a) What are your company's **top 5 current concerns**?
(Please give in order of importance, starting with the most important)

- _____
- _____
- _____
- _____
- _____

- b) What are you doing to address your most urgent concerns?

- _____
- _____
- _____
- _____
- _____

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

- _____
- _____
- _____

E. ANY OTHER COMMENTS

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

- _____
- _____
- _____



Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi | Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000