



**Central Bank of Kenya**

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

September 2021





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## 1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the other 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 CEOs views 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 strategic priorities over the medium-term.

The Survey targets CEOs of key private sector organizations including members of the Kenya Association of Manufacturers (KAM) and the Kenya Private Sector Alliance (KEPSA). The sectors covered by the Survey include agriculture, mining and energy, manufacturing, wholesale and retail trade, 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

The latest CEOs Survey was conducted between September 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 2021 Q3 compared to 2021 Q2, and their expectations for economic activity in 2021 Q4. The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (September 2021 – August 2022), as well as the strategic directions and solutions to address their key constraining factors over the medium term (September 2021 – August 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. Seventy percent of respondents were repeat respondents, having participated in previous surveys. The respondents were from the following sectors: manufacturing (25 percent), agriculture (13 percent), professional services (20 percent), ICT, media and telecommunications (8 percent), financial services (7 percent), real estate (7 percent), pharmaceuticals and healthcare (7 percent) and wholesale and retail trade (5 percent). Other sectors such as transport and storage and mining and energy accounted for 2 percent each.

Most of the respondents (61 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses and publicly-listed domestic companies. More than 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 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 of the Survey include:

- There was sustained optimism in September 2021. Optimism about the growth prospects was driven by higher confidence in the services sector. These respondents expect higher growth prospects for their companies and sectors. This optimism was mainly attributed to an uptick in business activity, containment of the Covid-19 pandemic and prospects for strong global recovery.
- Business activity for 2021 Q3 improved compared to 2021 Q2, with respondents reporting an increase in business orders and sales following the easing of Covid-19 restrictions and seasonality effects. Production volumes however, remained the same for a large proportion of respondents on account of increased inputs costs.

- Surveyed firms continue to be optimistic about business activity in 2021 Q4 and expect this to mirror the Q3 performance. Respondents expect an increase in business orders and sales, especially related to seasonal activity. The prices of goods and services purchased is expected to remain elevated owing to cost of input pressures thereby limiting the scope for increased production volumes.
- Whereas the Covid-19 pandemic continues to be a significant factor that could constrain expansion of private sector firms over the next one year, respondents appreciate that the roll-out of vaccines in the country has moderated its impact and firms have also instituted measures to work round the pandemic. There's however, increasing concern that the heightened political activity in the country may have a negative impact on the economy. To mitigate the constraining factors, firms across all sectors intend to manage costs and risks. Firms in the services and manufacturing sectors intend to mitigate Covid-19 and diversify their business, respectively.
- Consistent with previous Surveys, the business leaders indicated that improved efficiency/innovation, increased marketing/better branding and improvement of product portfolio/developing new products were key internal factors that could strengthen their outlook. Externally, respondents indicated that an enabling business environment, a stable economic environment and containment of the Covid-19 pandemic could strengthen the outlook of their firms over the same period.

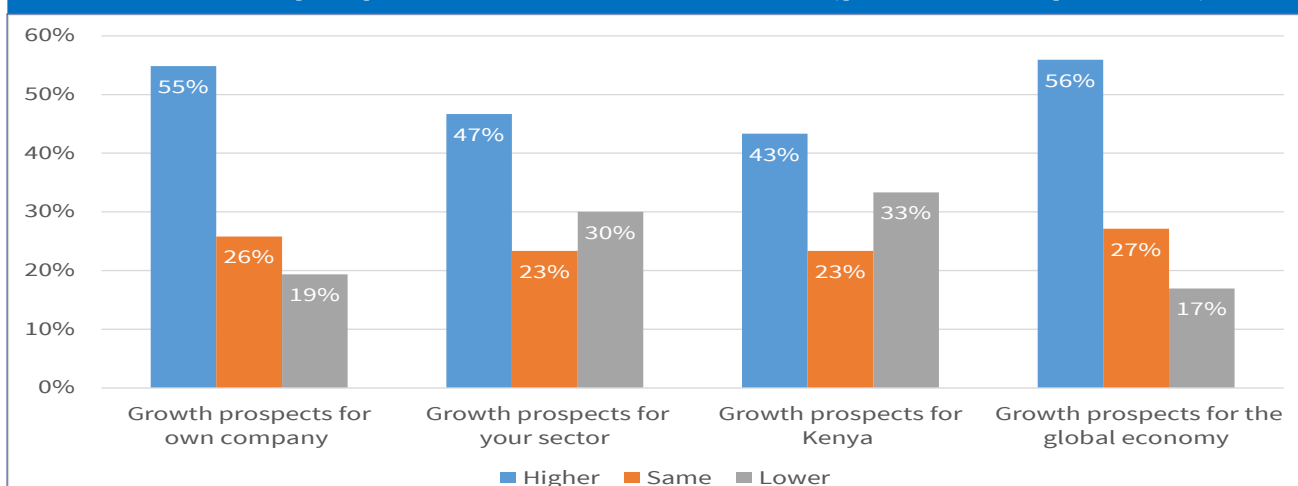
## 5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

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

Optimism was mainly driven by the services<sup>1</sup> sector due to improved business activity following the easing of Covid-19 restrictions, containment of the pandemic in view of increased vaccinations and improved prospects for global recovery. Business prospects are especially higher for firms in healthcare, security and manufacturers of medical supplies where activity has rebounded. Firms in professional services have also witnessed positive gradual growth and refreshed demand following the slowdown witnessed in 2020.

Optimism about growth prospects declined marginally in September 2021 compared to July 2021, mainly for firms in agriculture and manufacturing sectors. For the former, the main concerns remain the unfavourable weather conditions that are likely to affect sectoral output. Firms in the manufacturing sector reported concerns over declining profit margins amidst rising costs of production, especially freight costs, and erosion of consumer purchasing ability. About a quarter of respondents do not expect a change in growth prospects over the next 12 months citing the Covid-19 situation and heightened political activity associated with the 2022 elections.

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



<sup>1</sup>Services includes professional, hotel & restaurant, media, wholesale & retail, financial and ICT/telecommunications sectors.

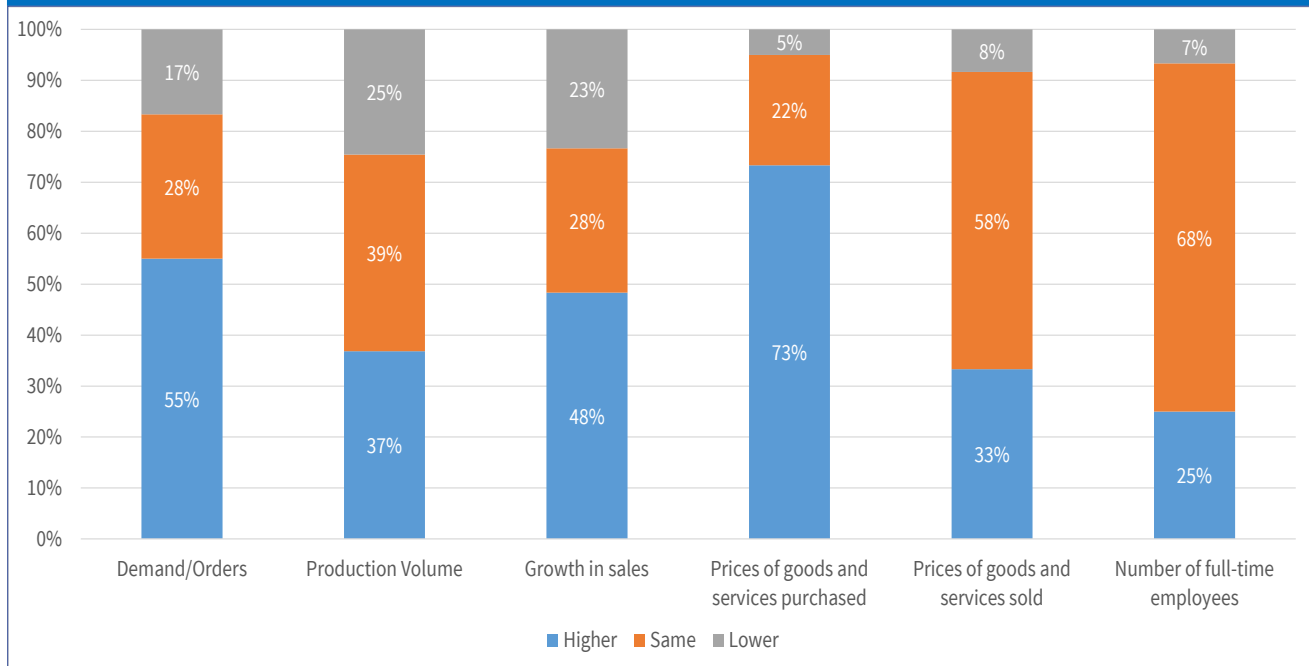
## 6. PERCEPTIONS ON BUSINESS ACTIVITY IN 2021 Q3 COMPARED TO 2021 Q2

The Survey sought CEOs perceptions on business activity in the third quarter of 2021 compared to the second quarter of 2021. The Survey noted that firms

are adjusting to the pandemic and finding ways to work round its challenges.

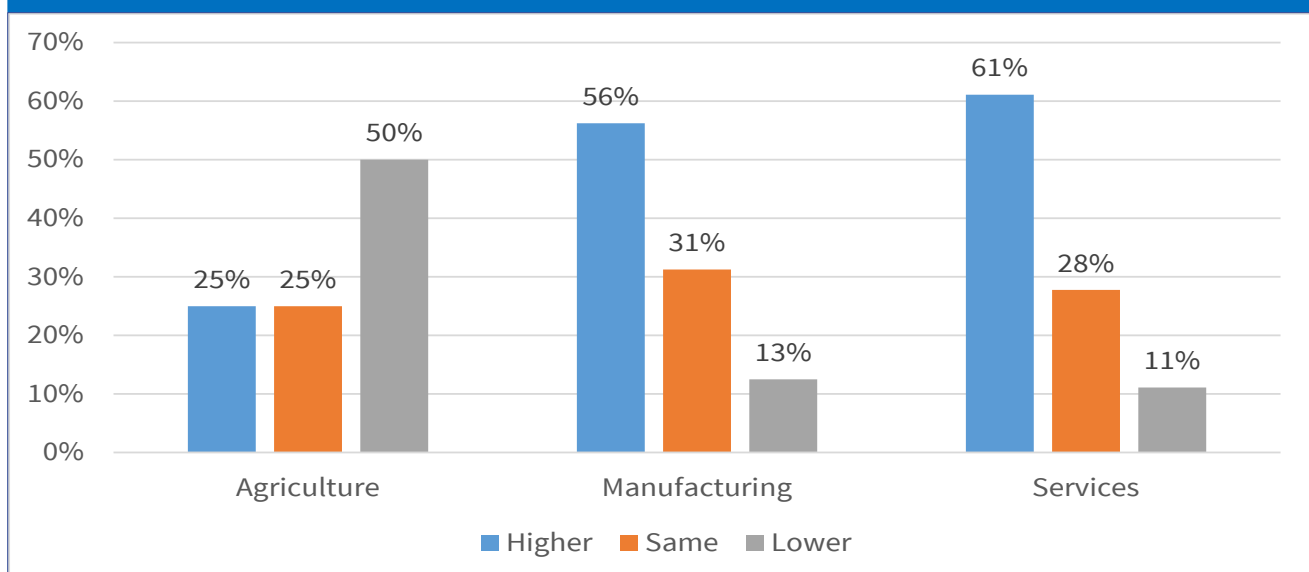
Performance improved in terms of business orders and sales, which edged up following the easing of Covid-19 restrictions. Firms, however, reported significant input cost increases with consumer prices remaining the same for a majority of respondents (**Chart 2**).

**Chart 2: Perceptions on Business Activity Indicators in 2021 Q3 Compared to 2021 Q2**



Increased sales and orders were experienced in the hospitality industry, the third quarter being a high season for the industry. Demand was especially higher for firms in the services sectors following an improvement in business activity (**Chart 3**).

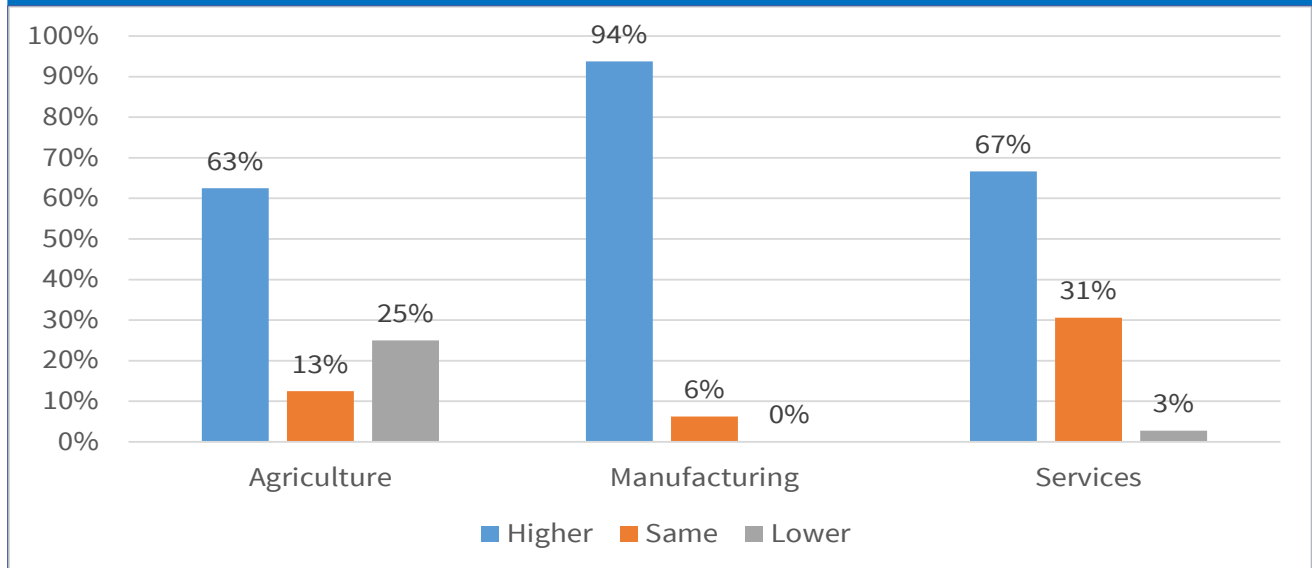
**Chart 3: Perceptions on Demand/Orders in 2021 Q3 relative to 2021 Q2 by Sectors**



High input prices appear to have held production volumes at the same levels, especially for firms in manufacturing where costs of raw materials and cost of freight continue to be a big concern for majority of respondents (**Chart 4**). Specifically, manufacturers

were unable to increase prices, while their input costs increased, as the market and consumers could not absorb higher prices. This is reported to have resulted in narrowing of profit margins and some losses for those operating at the same volume.

**Chart 4: Perceptions on Purchase Prices in 2021 Q3 compared to 2021 Q2 by Sectors**

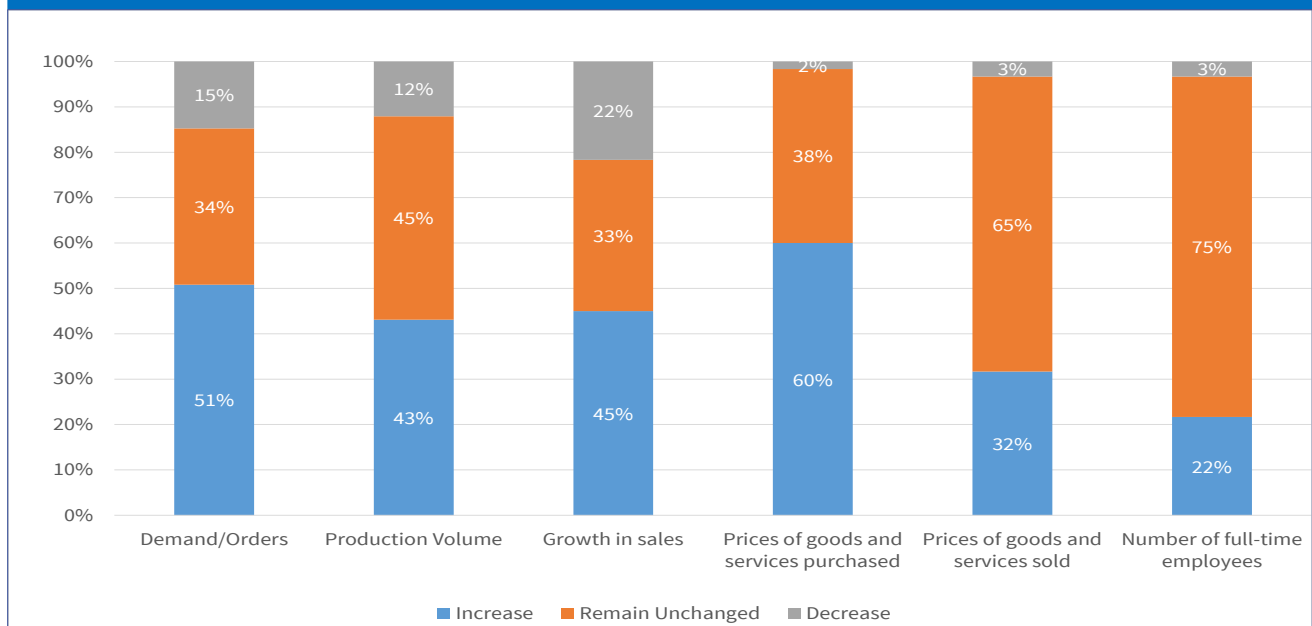


## 7. OUTLOOK FOR BUSINESS ACTIVITY IN 2021 Q4 COMPARED TO 2021 Q3

The Survey sought CEOs expectations of business activity in the fourth quarter of 2021 relative to the

third quarter. Most CEOs expect business activity to mirror the performance in 2021 Q4 (**Chart 5**).

**Chart 5: Views on Expected Change in Business Activity Indicators in 2021 Q4 compared to 2021 Q3**

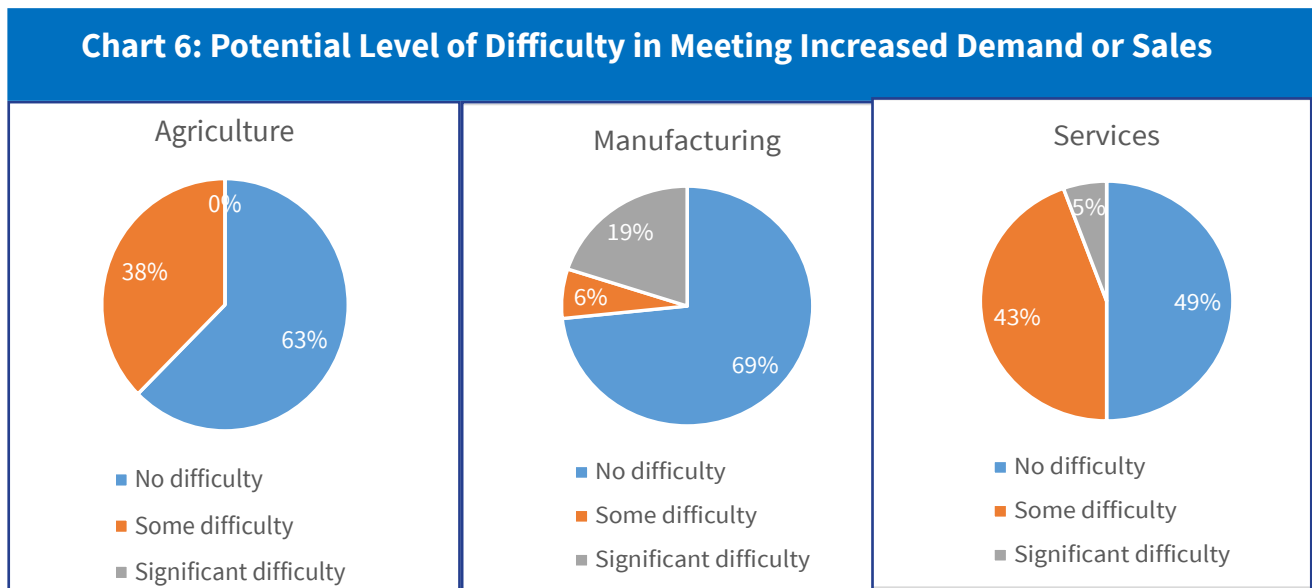


Businesses expect continued recovery in 2021 Q4, provided the Covid-19 situation remains contained and no further restrictions are imposed. Respondents expect business to be impacted positively by industry seasonality, specifically increased activity around the festive season, even though their ability to pass on price increases to customers will remain low over the period.

Respondents in the agricultural sector foresee production volumes remaining flat on account of weather conditions. A big jump in import prices such as fertilisers and freight costs are likely to drive higher

prices of goods sold. Manufacturing sector firms on the other hand foresee freight costs being a large contributing factor to the high cost of raw materials. Majority of firms expect the number of employees to remain the same. As firms hire younger employees, there's equal attrition of older staff, the net effect being that staffing has remained at the same level.

In terms of operating capacity, the Survey found 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 an unexpected increase in demand, the reasons cited include global supply chain disruptions, limited technical capacity following attrition of mid-level staff members requiring replacement and financing challenges.

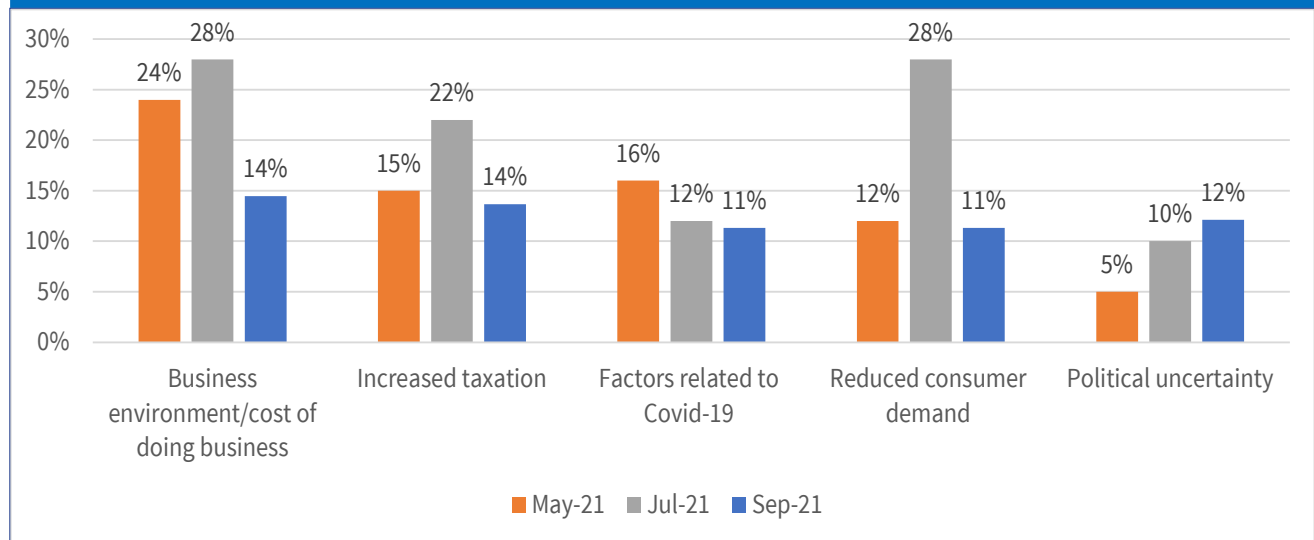


## 8. FACTORS CONSTRAINING EXPANSION OVER THE NEXT 12 MONTHS

The Survey sought to establish from the CEOs the factors that could constrain the growth and/or expansion of their firms over the next one year. The results show that while firms continue to be concerned about the Covid-19 pandemic, there is

increasing concern over political noise associated with the forthcoming elections (**Chart 7**). This confirms that firms may have found ways to adapt to the pandemic. The availability of more vaccines in the country also supports this view.

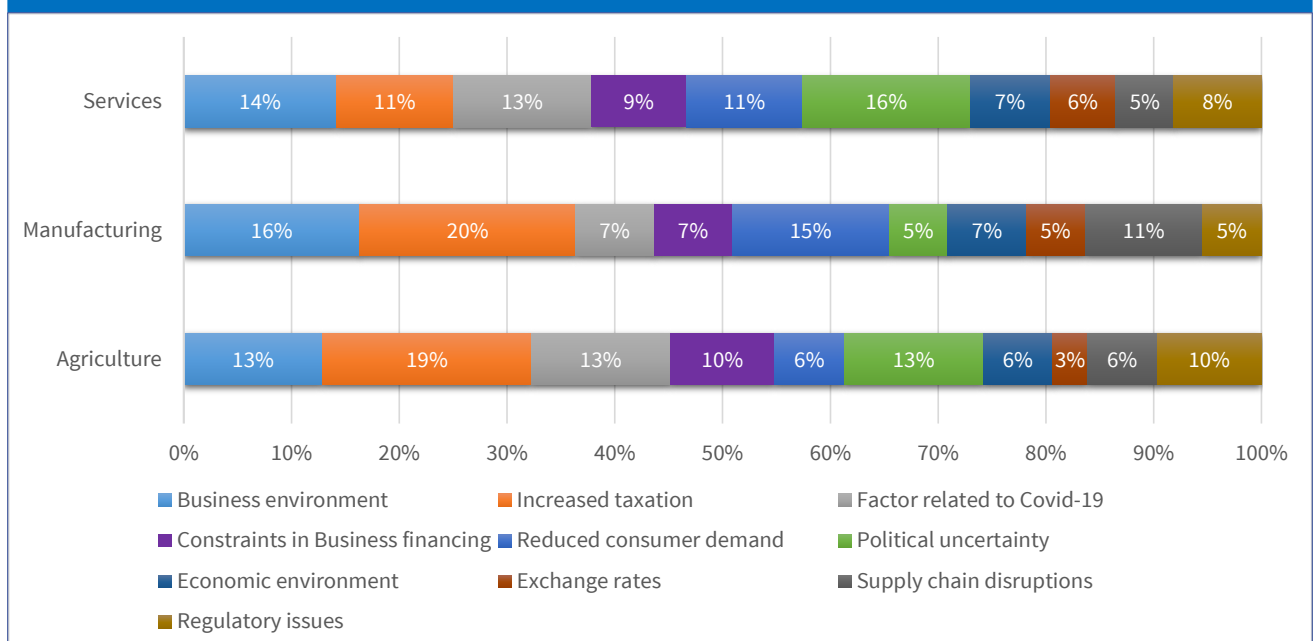
**Chart 7: Significant Factors that Constrain Firms' Expansion**



Firms in all sectors continue to be concerned about the business environment. For respondents in the services sector, factors relating to political uncertainty and Covid-19 containment were more constraining (**Chart 8**). Increased taxation and reduced consumer demand ranked equally for respondents in the manufacturing sector, whereas

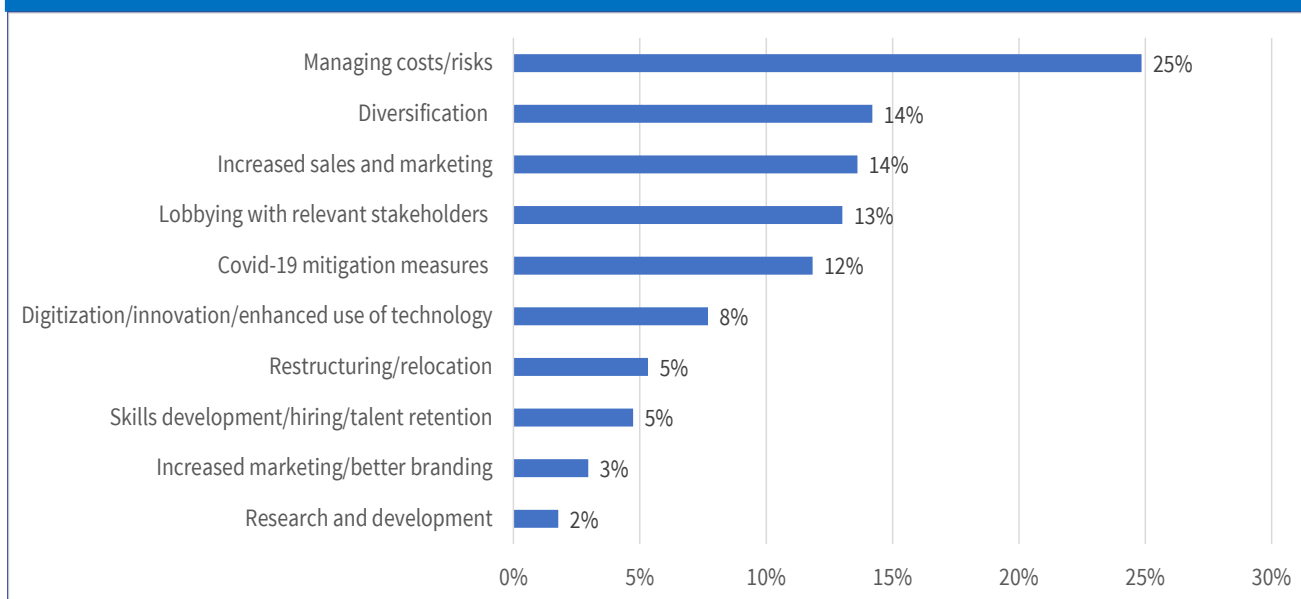
increased taxation (which has affected input prices) ranked highest for respondents in the agricultural sector, followed closely by political uncertainty. Factors relating to Covid-19 and political uncertainty all ranked equally for agricultural sector firms.

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



To mitigate the factors constraining expansion, firms proposed various solutions including management of costs and risks, diversification as well as increased sales and marketing (**Chart 9**).

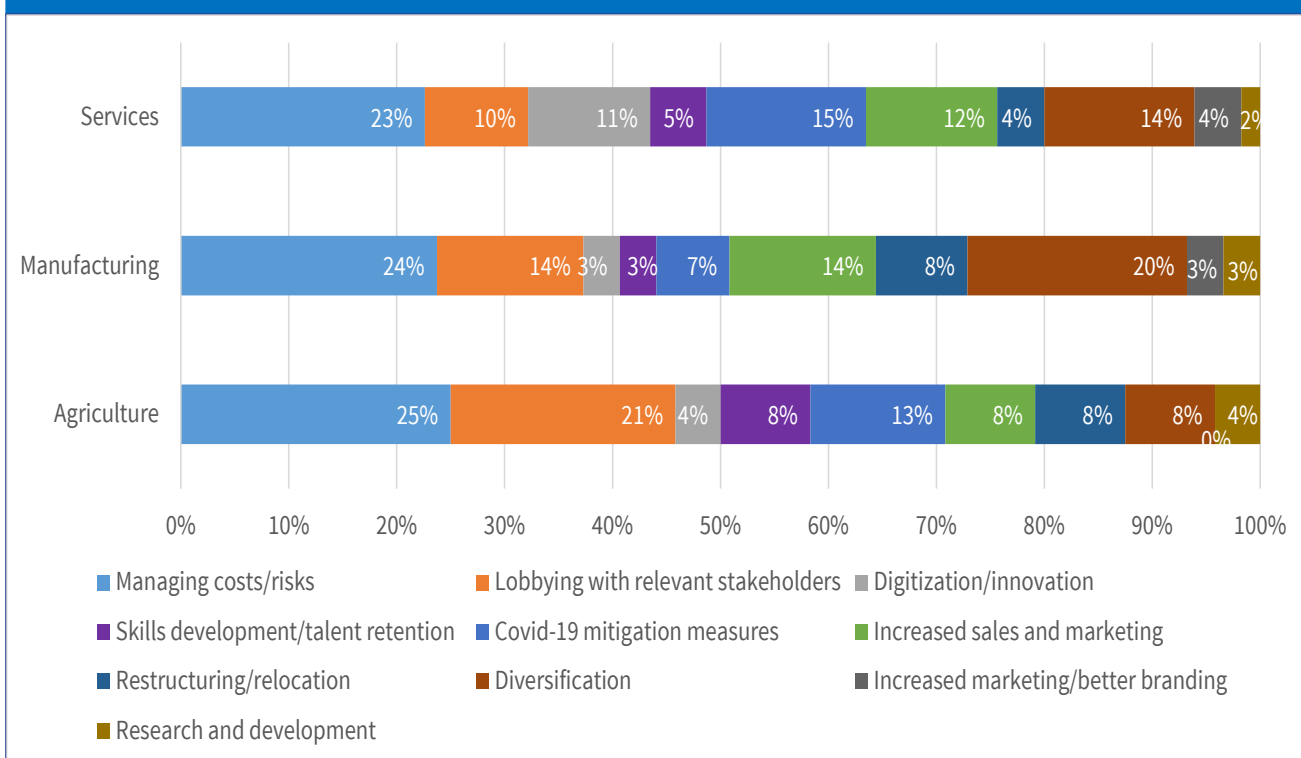
**Chart 9: Firms' Proposed Solutions to Factors Constraining Growth**



Besides managing costs/risks and diversification, Covid-19 mitigation measures were an important solution for the services sector, while lobbying with relevant stakeholders was deemed important for

the agricultural sector. In addition to diversification, lobbying with relevant stakeholders and increased sales and marketing were key solutions for the manufacturing sector (**Chart 10**).

**Chart 10: Firms' Proposed Solutions to Factors Constraining Growth by Sector**

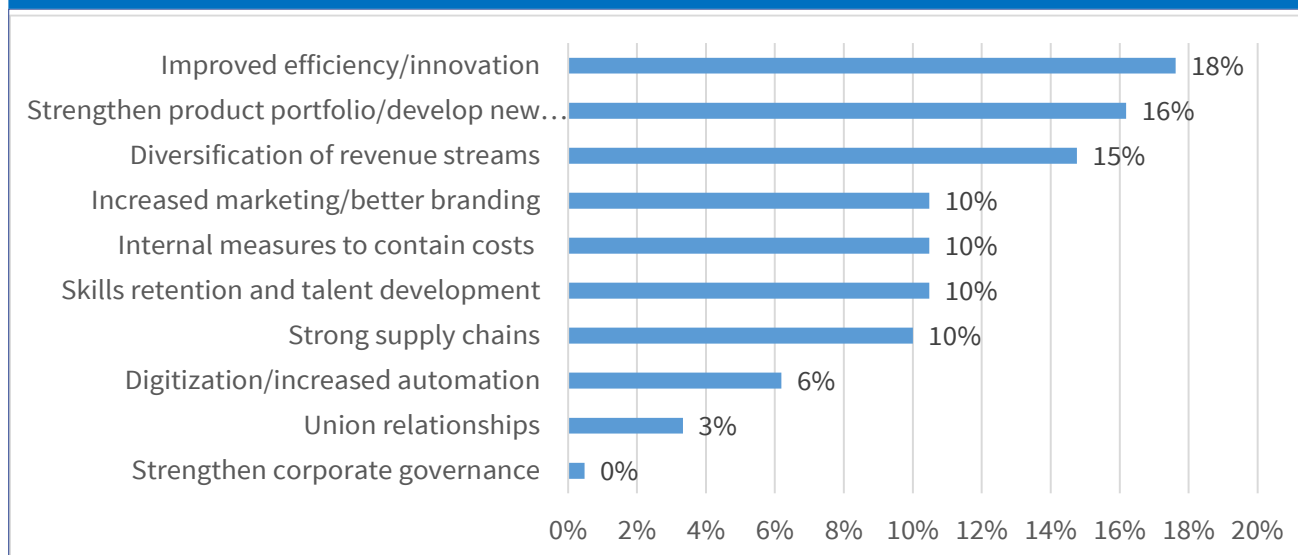


## 9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

The Survey sought to establish internal and external factors that could strengthen the firms' outlook over the next 12 months. The Survey results highlighted improved efficiency and innovation as the main internal factor that could strengthen outlook

for all sectors. Strengthening product portfolio/development of new products and diversification of revenue streams also continue to be important internal factors to strengthen outlook for majority of firms (**Chart 11**).

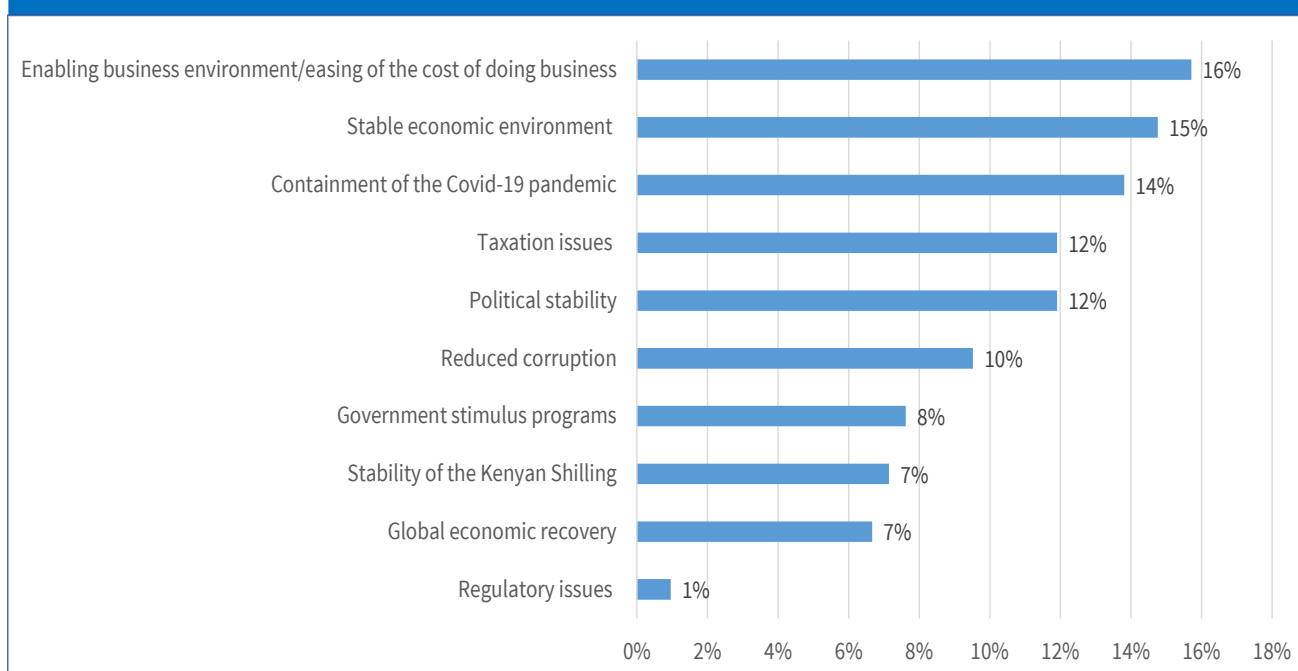
**Chart 11: Internal Factors that could Strengthen Firms' Outlook**



A sectoral analysis of the identified factors reveals that skills retention and talent development are important factors for the services sector. For manufacturing and agriculture, strong supply chains and increased marketing are important factors, respectively.

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 12**).

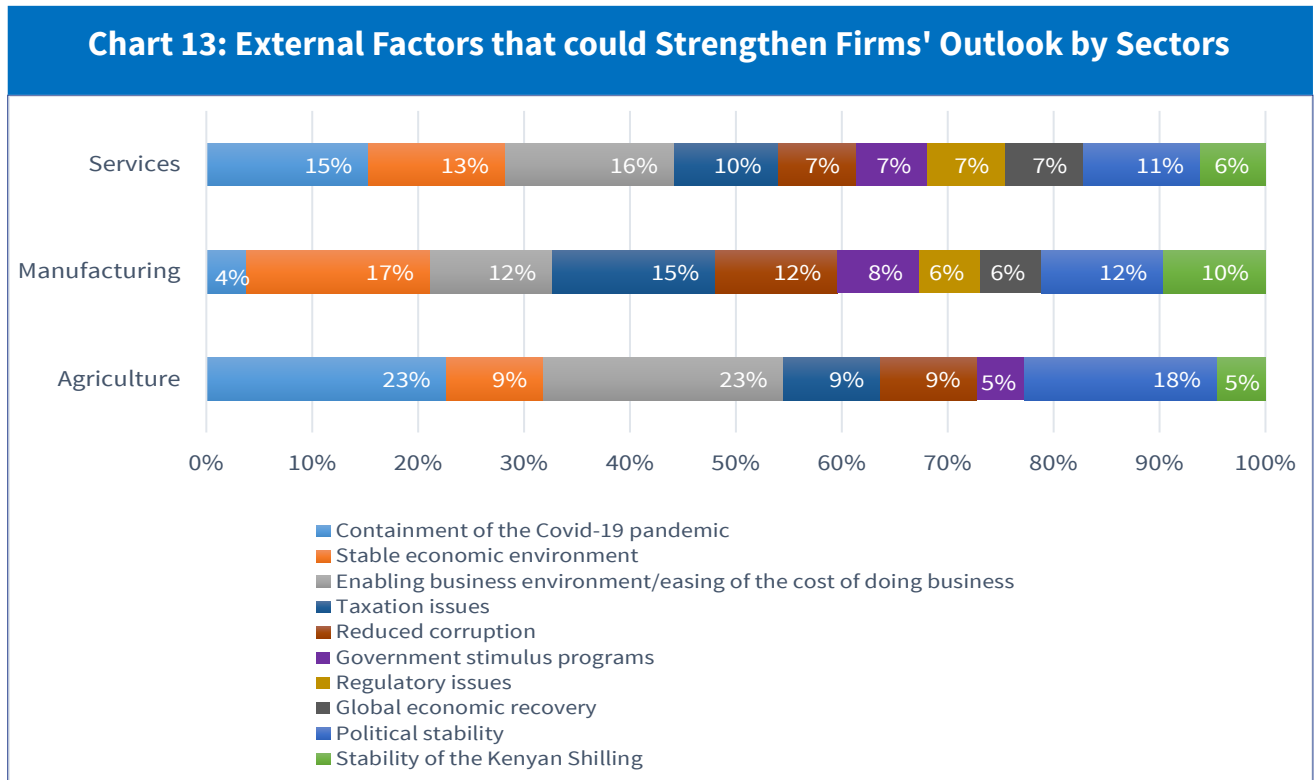
**Chart 12: External Factors that could Strengthen Firms' Outlook**



Business leaders pointed out that an economic stimulus programme would alleviate challenges facing the manufacturing sector and by extension the private sector as whole. In particular, the CEOs recommended reduction in cost of borrowing, lower taxation especially excise duty and VAT which is impacting demand negatively and a review of constraining regulatory requirements that are hampering foreign investments. Availability of working capital would allow firms to tap into their

huge capacity to increase supply and meet consumer demand. The CEOs also highlighted that businesses were being impacted by increased illicit goods (counter brand, counterfeit and uncompliant cheap products). Additionally, the high level of inflation has affected affordability of products.

At the sectoral level, external factors that could constrain firms' expansion, mirror the factors across all firms (**Chart 13**).

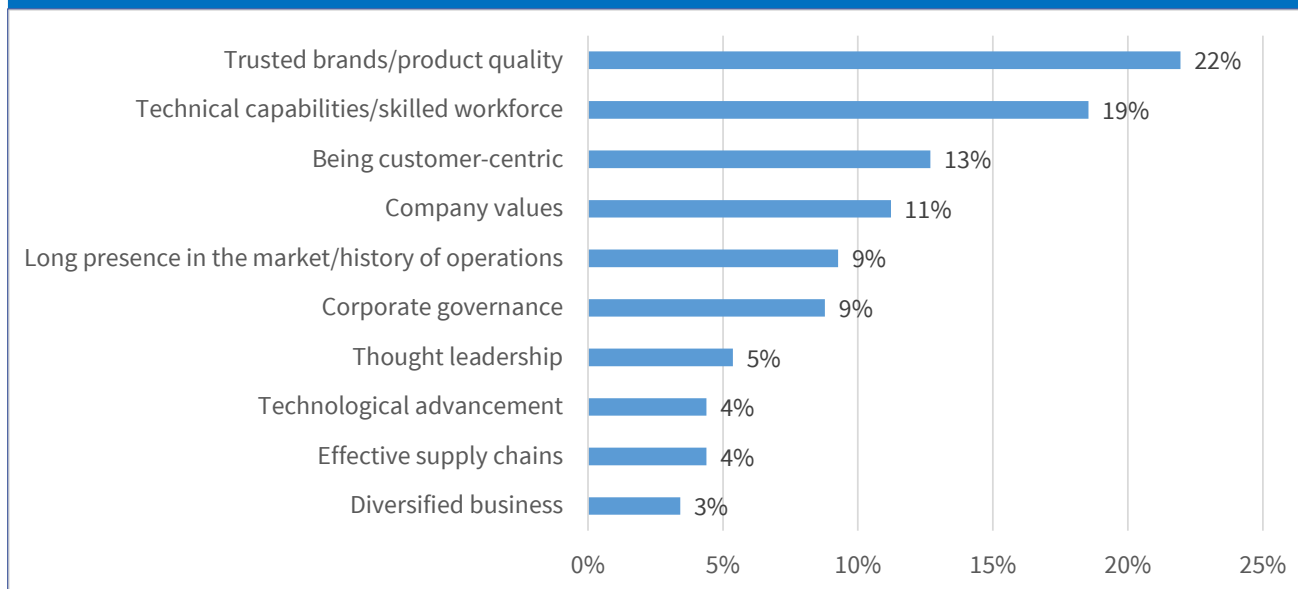


## 10. TOP COMPANY STRENGTHS

and customer centricity as being integral in offering superior customer satisfaction **(Chart 14)**.

The Survey required of respondents to indicate their company's strengths. Firms continued to report trusted brands, quality of workforce, product quality

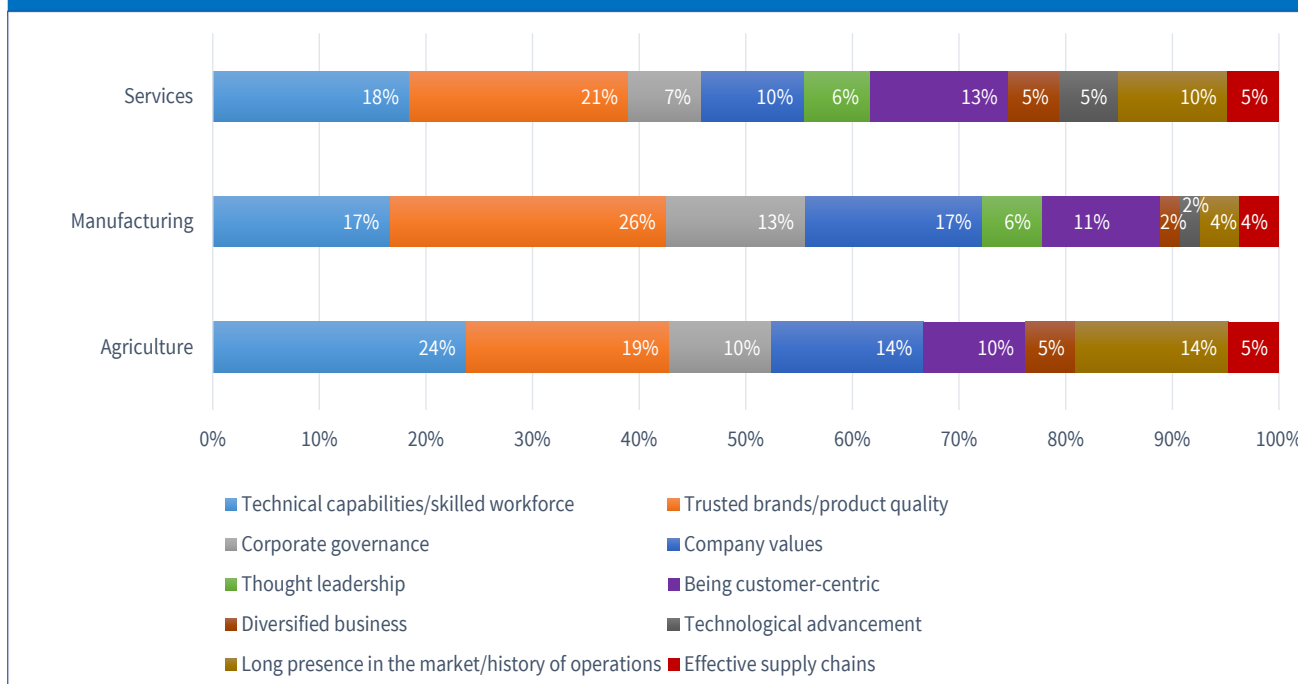
### Chart 14: Firms' Top Strengths



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

values in addition to skilled workforce were key strengths for the manufacturing sector **(Chart 15)**.

### Chart 15: Firms' Top Strengths by Sectors

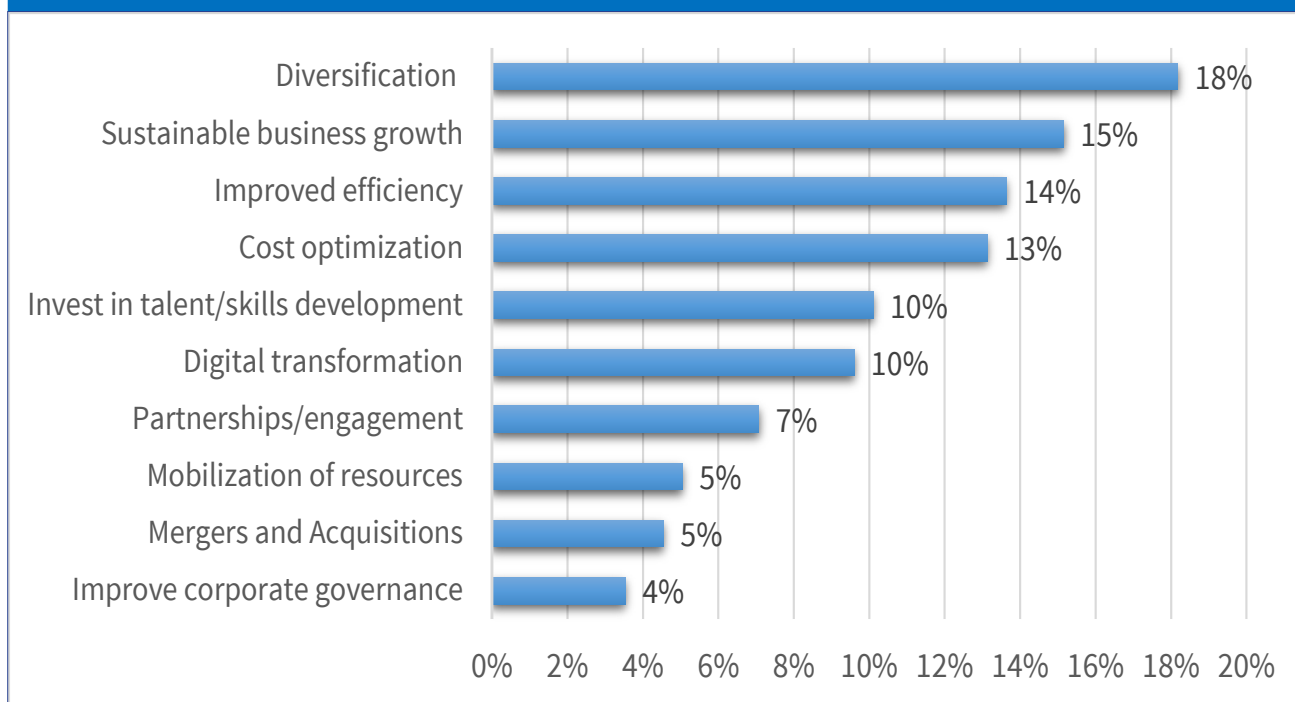


## 11. STRATEGIC PRIORITIES

The Survey concluded by enquiring of respondents, their strategic priorities over the next three years. There were no significant deviations in business

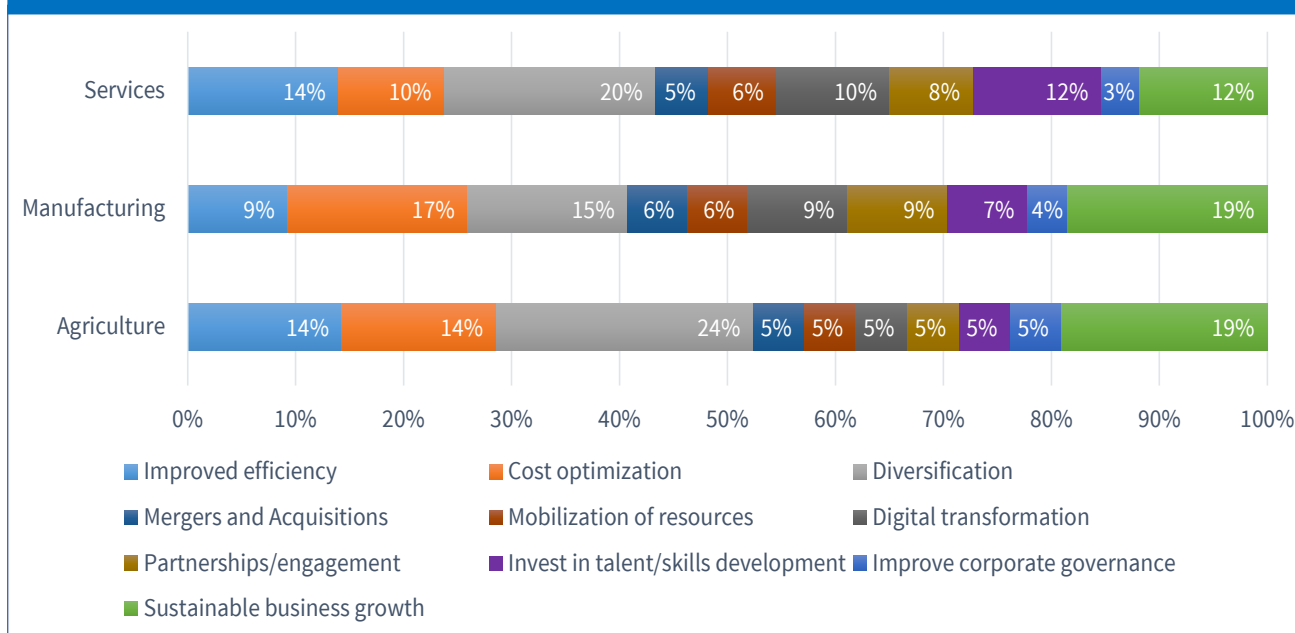
strategies over the medium-term compared to the July 2021 Survey. Businesses plan to diversify, grow their businesses sustainably and improve efficiency (Chart 16).

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



Besides diversification as a top strategy across all sectors, sustainable business growth and cost optimization were identified as top priorities by 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 and cost optimization.

**Chart 17: Firms' Strategic Priorities over the Next Three Years by Sector**



## 12. CONCLUSION

The September 2021 Survey revealed continued business optimism, tempered by concerns on the increasing input costs, the risks associated with the heightened political activity, and the continued uncertainty regarding the Covid-19 pandemic. Optimism about the growth prospects was driven by higher confidence in growth prospects for respondents' companies and sectors, especially in the services sector. Business confidence in growth prospects for the Kenyan economy remained virtually the same as the July 2021 levels.

Business leaders reported improved performance in business activity in 2021 Q3 relative to 2021 Q2 with respondents acknowledging that fourth quarter business activity was likely to mirror Q3 performance. The CEOs remain optimistic about business activity for Q4 2021, with respondents expecting an increase in business activity owing to seasonal spending.

Whereas the Covid-19 pandemic continues to be a significant factor that could constrain expansion

of private sector firms over the next one year, respondents appreciate that the roll-out of vaccines in the country has moderated its impact and firms have also instituted measures to adjust to the pandemic. There's however, increasing concern over heightened political activity in the country with the attendant possible negative impact on economic activity. To mitigate the constraining factors, firms across all sectors intend to manage costs and risks.

Consistent with previous surveys, the business leaders indicated that improved efficiency/innovation, increased marketing or better branding and product portfolio improvement/ new product development were key internal factors that could strengthen their outlook. Externally, respondents indicated that an enabling business environment, a stable economic environment and containment of the Covid-19 pandemic could strengthen the outlook of their firms over the same period.

## 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 style="float: right;" type="checkbox"/>	Less than KSh 250 million <input style="float: right;" type="checkbox"/>
Between 100 – 250 <input style="float: right;" type="checkbox"/>	Between KSh 250 million and KSh 750 million <input style="float: right;" type="checkbox"/>
Between 251 – 500 <input style="float: right;" type="checkbox"/>	Between KSh 751 million and KSh 1 billion <input style="float: right;" type="checkbox"/>
Between 501 – 1000 <input style="float: right;" type="checkbox"/>	Between KSh 1 billion and KSh 5 billion <input style="float: right;" type="checkbox"/>
Over 1000 <input style="float: right;" type="checkbox"/>	Over KSh 5 billion <input style="float: right;" type="checkbox"/>
Other (please specify)	Other (please specify)

v) What is the ownership structure of your company?

Privately-owned Domestic <input style="float: right;" type="checkbox"/>
Privately-owned Foreign <input style="float: right;" type="checkbox"/>
Publicly listed Domestic <input style="float: right;" type="checkbox"/>
Publicly listed Foreign <input style="float: right;" type="checkbox"/>
Government-owned <input style="float: right;" 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 <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			
	Any additional comment on growth prospects?			
B. OUTLOOK ON BUSINESS ACTIVITY				
2.	a) How would you rate the following performance indicators during <b>Quarter 3, 2021 (July - September)</b> compared with <b>Quarter 2 2021 (April-June)</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			
	Any additional comment on performance of business activities?			

	b) How do you expect the indicators below to develop in <b>Quarter 4 2021 (October-December)</b> compared to <b>Q3 2021 (July-September)</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			
	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, <b>what are the top three factors that could significantly constrain</b> 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 <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?

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



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