

Central Bank of Kenya

Monetary Policy Committee CEO's Survey

September 2022

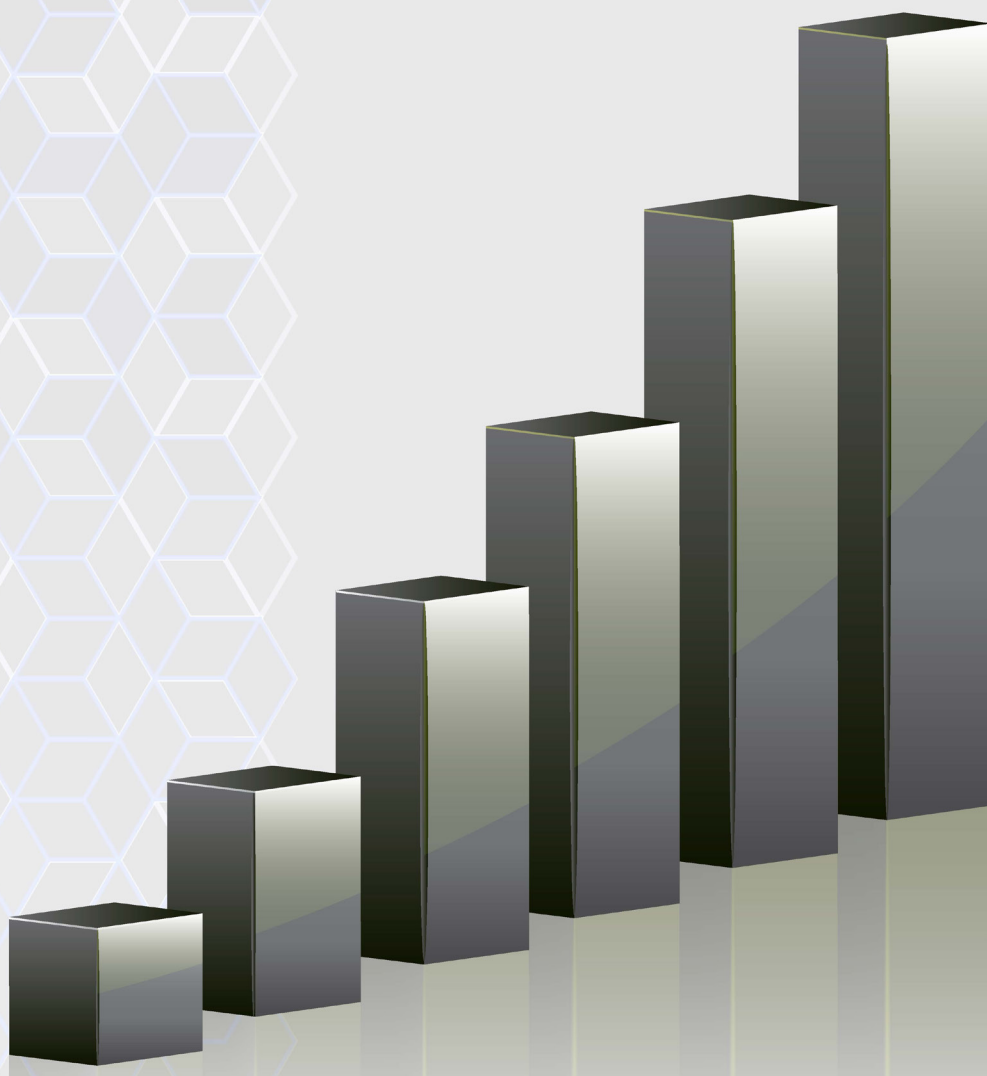


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1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the other surveys (Private Sector Market Perceptions and Survey of Agriculture Sector) 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 issues of concern. The Survey supports key policy decisions, including monetary policy.

The Survey seeks CEOs views/perceptions on selected indicators including business confidence and optimism, current 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).

2. INTRODUCTION

This Survey was conducted between September 2 and 16, 2022. The Survey inquired from CEOs their levels of confidence/optimism in the growth prospects for their companies and sectors, as well as the growth prospects for the Kenyan and global economies over the next 12 months. In addition, the Survey interrogated CEOs on business activity in 2022 quarter three (Q3) compared to 2022 quarter two (Q2), and their expectations for economic activity in the fourth quarter of 2022 (Q4). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (September 2022 – August 2023), as well as the strategic directions and solutions to address their key constraining factors over the medium term (September 2022 – August 2024). This report provides a summary of the findings of the Survey.

3. SURVEY METHODOLOGY

The Survey targeted CEOs of over 1000 private sector firms through questionnaires administered via a direct online survey.

The respondents were from the following sectors: manufacturing (21 percent), professional services (18 percent), agriculture (10 percent), ICT and telecommunications (9 percent), financial services (8 percent), health and pharmaceuticals (7 percent), real estate (5 percent), education (4 percent), tourism, hotels and restaurants (4 percent), and wholesale and retail trade (4 percent). Other sectors such as security, media, mining and energy, and transport and storage accounted for two percent each or less.

Majority of the respondents (61 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses and publicly listed domestic companies. Forty five 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 27 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:

- Significant improvement in CEO business optimism/confidence about growth prospects for their companies and sectors across all sectors. This optimism was mainly attributed to renewed post-election investor confidence, anticipated new government policies, and sector specific growth opportunities especially in the services¹ sector. However, respondents highlighted concerns over domestic and global inflation, energy costs, unfavorable weather conditions; declining consumer demand, the continued war in Ukraine which could constrain growth.

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

- Respondents reported subdued performance of business activity in 2022 Q3 compared to 2022 Q2 attributed to: subdued demand for goods and services as consumers minimized spending prior to elections and elevated input costs on account of high energy, food and other commodity prices.
- Surveyed firms expect business activity to improve in 2022 Q4. Respondents expect that demand/orders, production volumes and sales will increase for majority of businesses. Firms attribute this to anticipated increased business opportunities in the EAC and African markets as well as seasonal factors for specific sectors such as tourism and professional services. Nevertheless, high input costs are expected to persist due to inflation, recently introduced excise taxes, increased fuel costs and poor weather conditions, even as the war in Ukraine lingers.
- With the conclusion of the elections, the survey shows that concerns over political uncertainty have waned. Nonetheless, respondents continued to highlight the economic environment (high inflation and the strengthening of the US dollar) and the business environment (cost of doing business) as factors that could constrain their growth in the near term. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, increased sales and marketing and digitisation of their operations.
- Consistent with previous surveys, business leaders indicated that diversification, improved efficiency/innovation, and skills retention/talent development were key internal factors that could strengthen their outlook. Externally, respondents indicated that a stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling could strengthen firms' outlook in 2022.

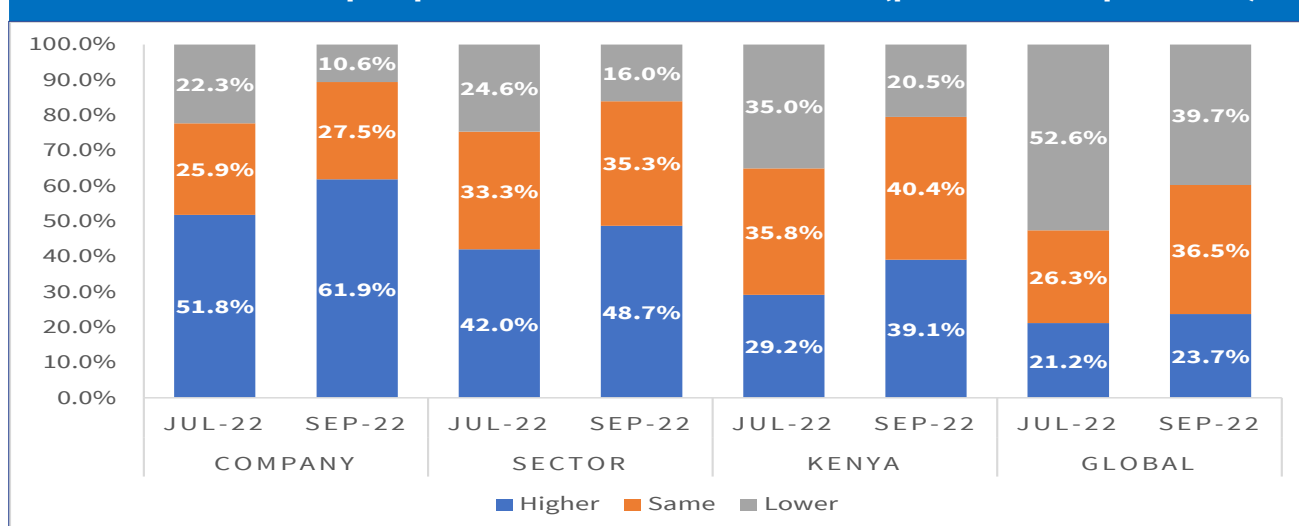
5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

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 and sectors (**Chart 1a**). Optimism was mainly due to renewed investor confidence following the quick and peaceful conclusion of the elections, anticipated new government policies, as well as sector specific growth opportunities especially in the services sector. Firms reported increased opportunities for business especially green economy in agriculture, manufacturing, MSMEs and automotive industries. Additionally, firms reported headroom for growth in construction, fintech and real estate industries.

Optimism regarding growth prospects for the Kenyan economy improved significantly largely on account of the peaceful and smooth transition to a new administration. As business normalcy returns, respondents anticipate that the Kenyan economy is likely to grow as focus shifts to value creation, with companies riding on this wave to consolidate on infrastructure improvements and focus on meeting consumer requirements.

Nonetheless, respondents continue to be concerned about the strengthening of the US dollar, high inflation, and declining consumer purchasing power. Agriculture sector firms are particularly concerned about the depressed rainfall which is likely to affect production in 2022.

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



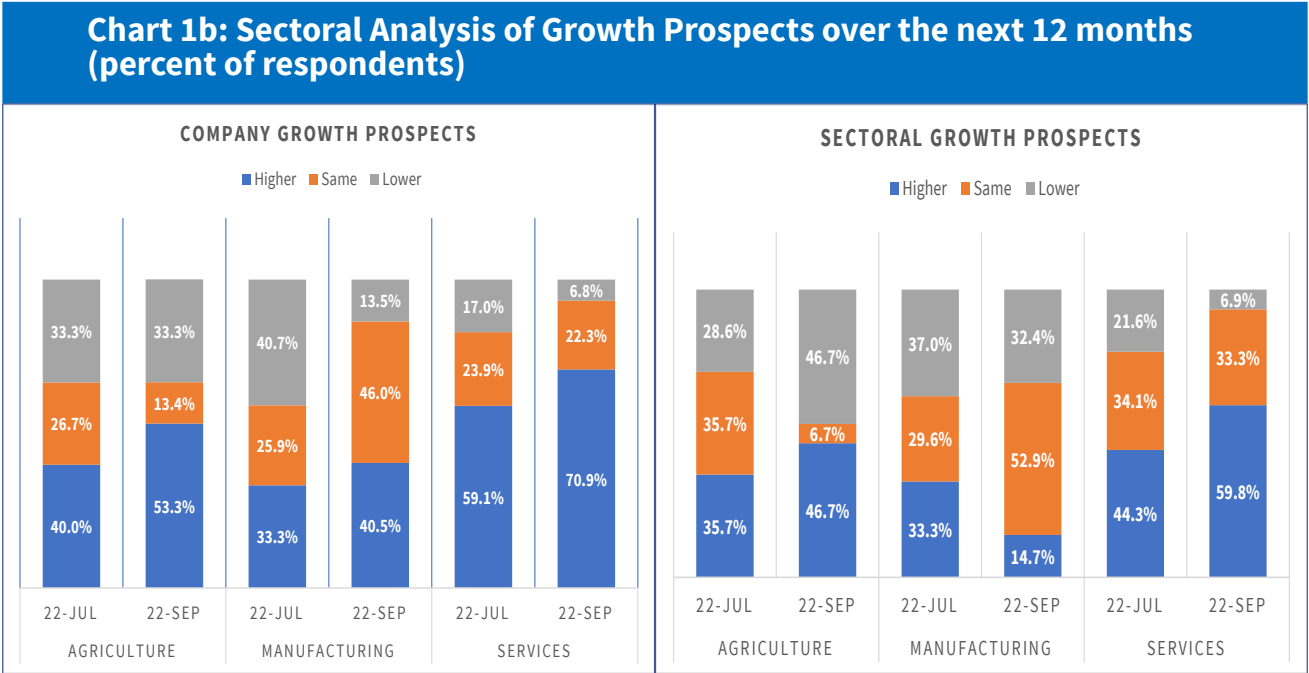
On the global economy, optimism improved as countries continued to recover from the effects of the COVID-19 pandemic and global supply chain constraints continued to ease. Nevertheless, there are lingering concerns relating to continued disruptions from the war in Ukraine, possible global recession, and persistent high inflation. This notwithstanding, the improved optimism led to an improvement in the Business Confidence Index **(Annex 1)**.

Compared to the July 2022 Survey, optimism was stronger across all sectors, albeit with higher optimism in the services sector **(Chart 1b)**.

In the agriculture sector, respondents attributed their optimism to new business opportunities in selected markets and anticipated policies by the new administration, notably on food security. Nevertheless, respondents highlighted concerns such as adverse weather conditions which has affected production especially for horticultural crops, high cost of inputs especially fertilizers, disruptions in some export destinations and the effects of the war in Ukraine.

In the manufacturing sector, respondents attributed their optimism to meeting pent up demand, business opportunities in clean energy and easing of supply chain disruptions. They however remained concerned about high inflation, new taxes and a possible global recession.

In the services sector, firms continued to report a positive outlook particularly in the professional services and ICT sectors. Firms attributed optimism to opportunities in digital communication, increased digitization within the healthcare space and adoption of new technology. Opportunities for growth were also noted in the real estate and building and construction sectors. Nonetheless, firms highlighted concerns such as the war in Ukraine and global inflation which are likely to affect growth prospects of the global economy.



6. PERCEPTIONS ON BUSINESS ACTIVITY IN 2022 Q3 COMPARED TO 2022 Q2

The Survey sought CEOs perceptions on business activity in the third quarter of 2022 compared to the second quarter of 2022. The Survey revealed that business activity was subdued prior to the elections.

Demand/orders, production volumes and sales were lower or the same for majority of respondents as consumers held back spending in view of the elections (**Chart 2**). The prices of goods and services purchased remained elevated due to external factors affecting the cost of production such as high fuel costs, food prices and supply chain constraints while the number of full-time employees remained the same for majority of respondents as business activity slowed down due to the August 2022 elections.

Firms in the agriculture sector reported lower demand and orders as well as sales due to reduced business activity in the domestic market as well as markets in Europe. Production volumes, especially for horticultural crops, were affected by the prolonged cold weather spell. Firms also reported that increased input prices were compounded by the strengthening of the US dollar against the British Pound and the Euro.

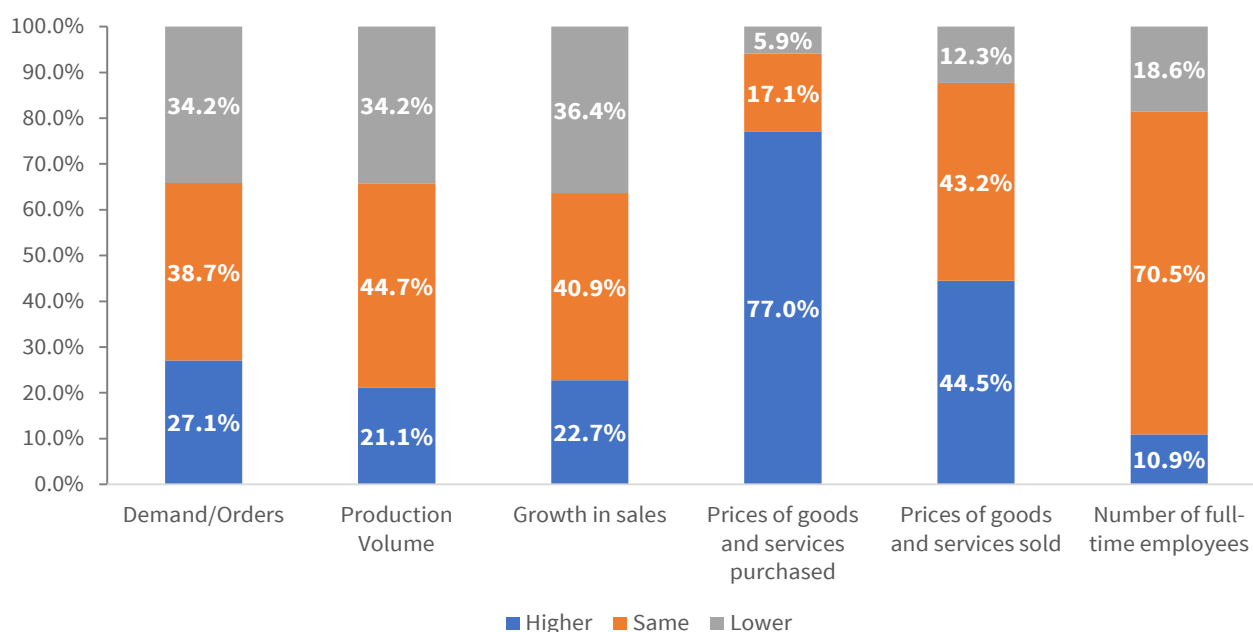
Firms in the manufacturing sector reported reduced

business activity associated with the elections. This has had the attendant effect of slowing down production and sales volumes. Prices of goods and services purchased remained high due to high inflation.

In the services sector, respondents reported a general increase in the prices of goods and services coupled with increased taxation resulted in higher costs, which firms could not pass on to customers. This led to reduced earnings. Supply chain constraints were also reported, arising from challenges in source markets within southern Africa as well as the war in Ukraine leading to a higher unit cost at production and cost of goods sold.

Nonetheless, some positive outcomes were noted in the ICT, building and construction and healthcare/ pharmaceutical sectors where respondents reported sustained demand and growth, with potential for more growth in 2023. Real estate sector firms reported tapping into the diaspora market which has growth potential while some professional services firms reported increasing the number of fulltime employees. Even so, domestic and global inflation remains a key concern for services sector firms, in addition to energy costs and the effect of increased taxes on cost of goods and services sold.

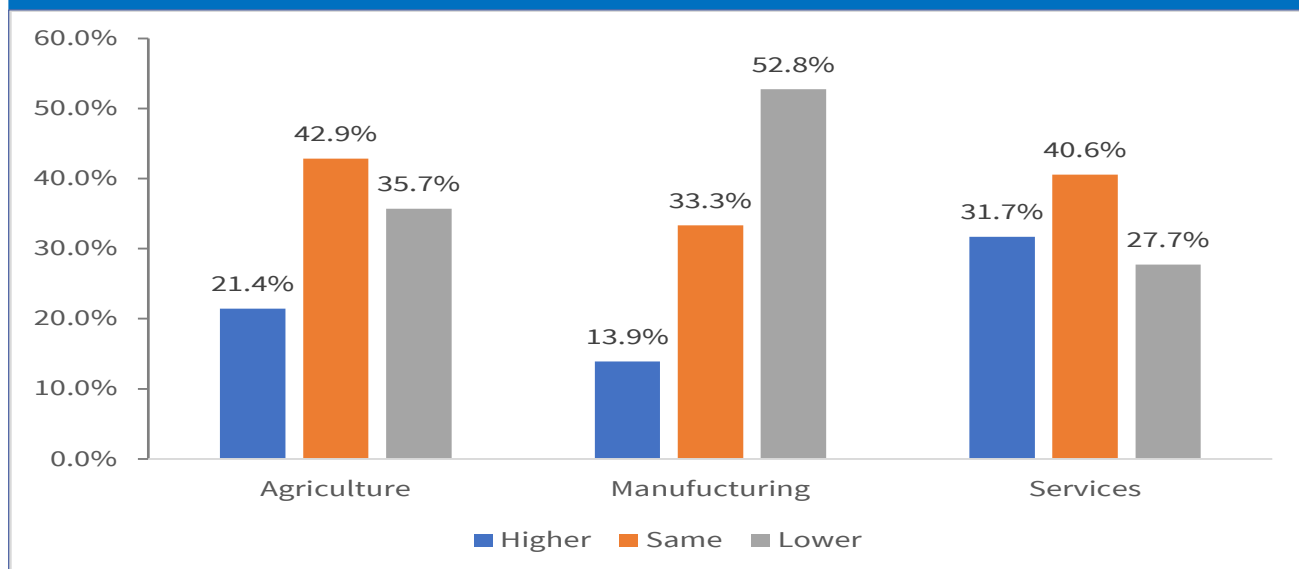
Chart 2: Business Activity Indicators in 2022 Q3 Compared to 2022 Q2 (percent of respondents)



In terms of sectoral demand in quarter 3 of 2022, the manufacturing sector firms reported the lowest demand/orders with some firms reporting reduced business activity by over 50 percent in July and

August. Several firms were largely affected by supply chain challenges (**Chart 3a**).

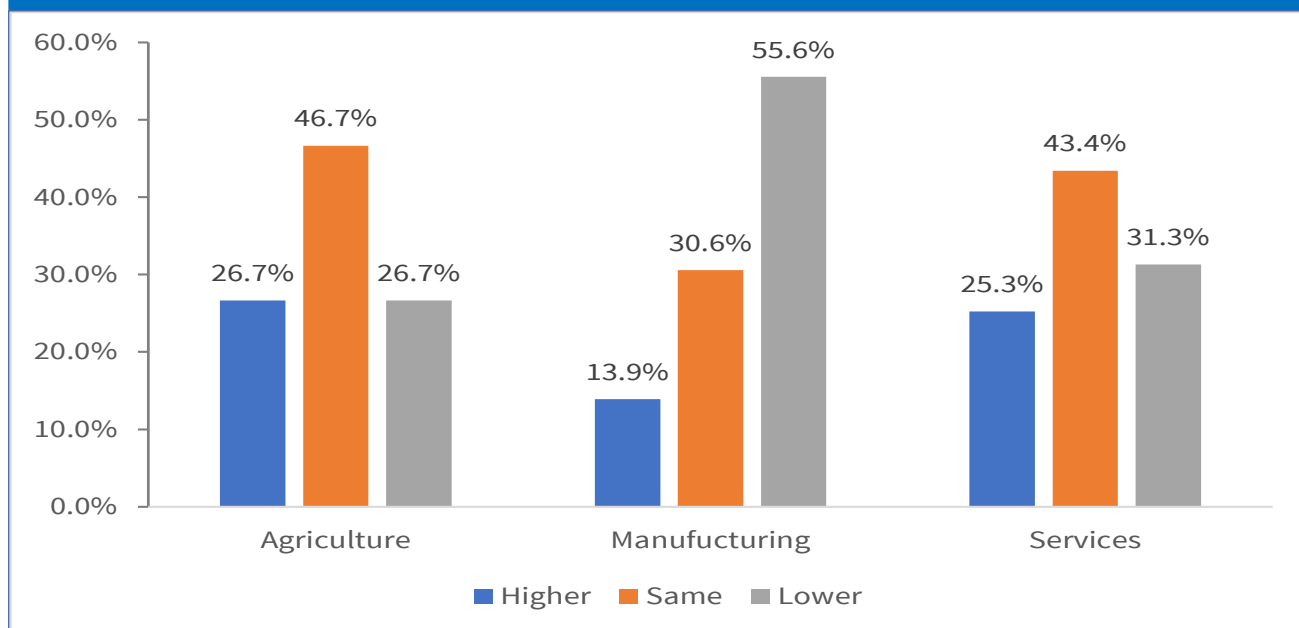
Chart 3a: Demand/Orders in 2022 Q3 relative to 2022 Q2 by Sectors (percent of respondents)



Agriculture sector firms reported higher sales growth compared to other sectors (**Chart 3b**). This was attributed to stable demand and growth as the local and regional economies bounce back post-COVID. Sales growth was lowest for manufacturing sector

firms where businesses reported several constraining factors including: the high cost of fuel; the impact of a weakening Kenya Shilling and cost of imported inputs that require foreign exchange to purchase.

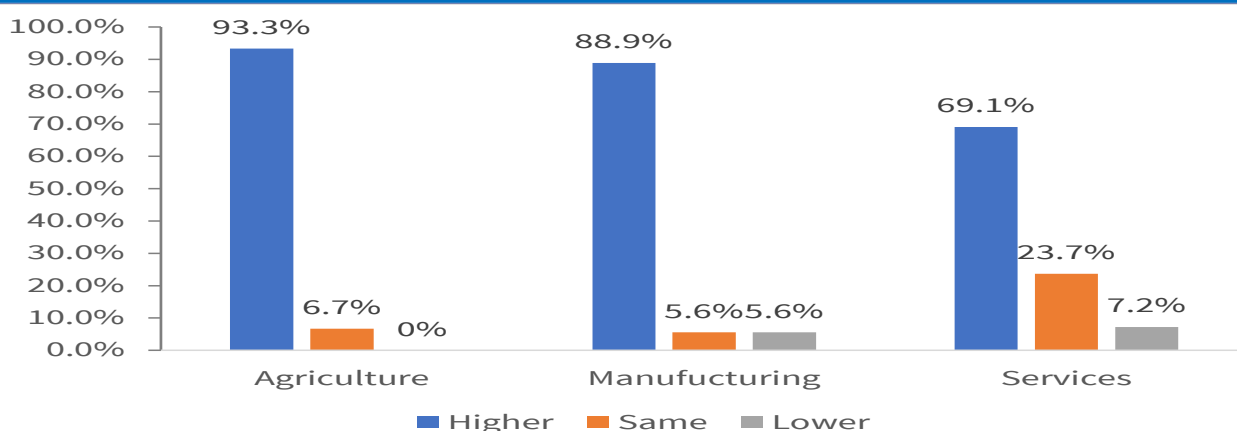
Chart 3b: Sales Growth in 2022 Q3 relative to 2022 Q2 by Sectors (percent of respondents)



Rising inflation, the impact of a stronger US dollar on the shilling and a general escalation of production

costs remain a concern for majority of respondents across all sectors (**Chart 4 and Annex 2a**).

Chart 4: Purchase Prices in 2022 Q3 compared to 2022 Q2 by Sectors (percent of respondents)



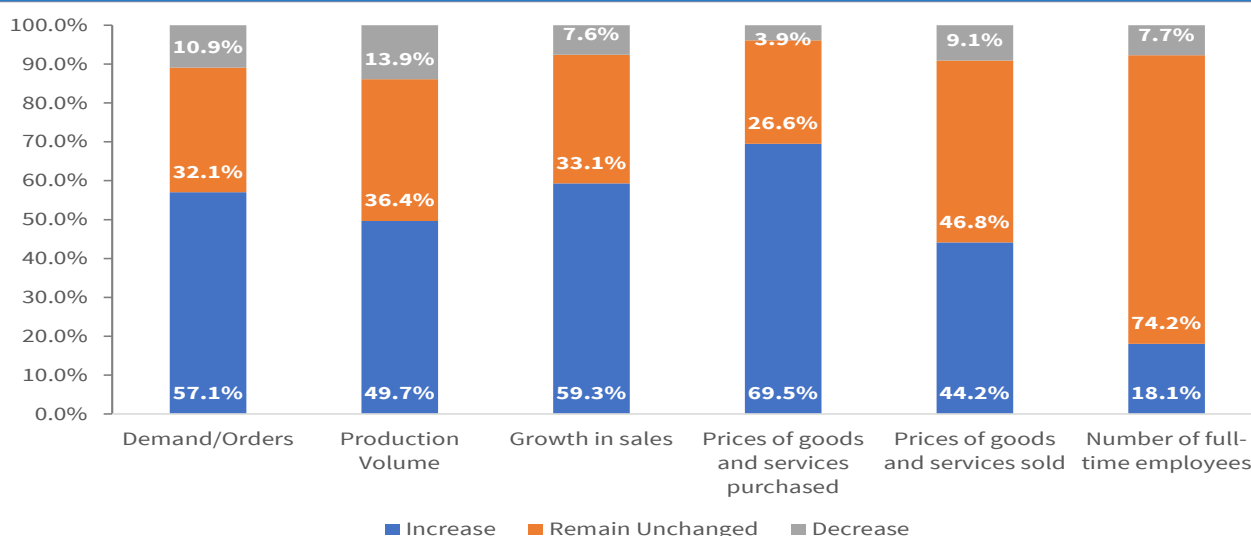
7. OUTLOOK FOR BUSINESS ACTIVITY IN 2022 Q4 COMPARED TO 2022 Q3

The Survey sought CEOs expectations of business activity in the fourth quarter of 2022 relative to the third quarter of 2022. Business activity in 2022 Q4 is expected to improve across all sectors (**Chart 5**).

Demand/orders, production volumes and sales are all expected to improve for majority of respondents as opportunities for increased business in the EAC and African markets open up. Businesses in the wholesale and retail trade, financial services, tourism, and professional services sectors are likely

to be boosted by seasonal factors. Further, with a new administration in place, there's renewed investor confidence with expectations that the new government will release funds to deal with its policy priorities and this could lead to more business opportunities. Nonetheless, the increase in excise taxes, inflation, fuel costs and the effect of the poor weather conditions are likely to keep prices of goods and services elevated (**Annex 2b**) and this will affect demand.

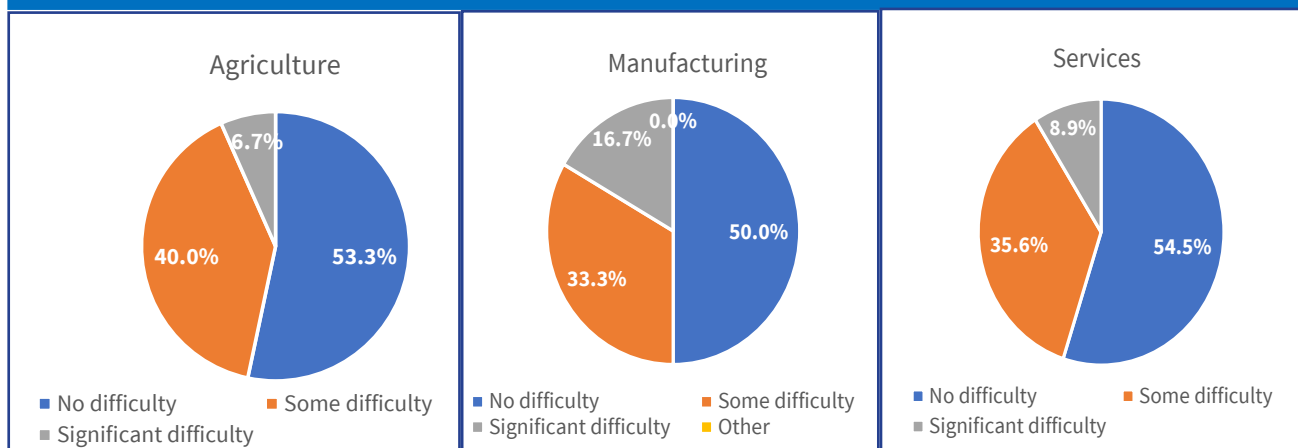
Chart 5: Outlook for Business Activity in 2022 Q4 compared to 2022 Q3 (percent of respondents)



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 flexibility in terms of business potential, hence ability to scale up. Firms with excess capacity also reported receded business volumes due to inflation, war in Ukraine war, COVID-19 pandemic and the general elections.

Firms which reported possible difficulty in expanding cited financing challenges and low demand by consumers (domestically and in export markets). Other reasons cited include: new COVID-19 variants which continue to pose investment and operational challenges to businesses; lingering supply chain challenges and availability of raw materials.

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

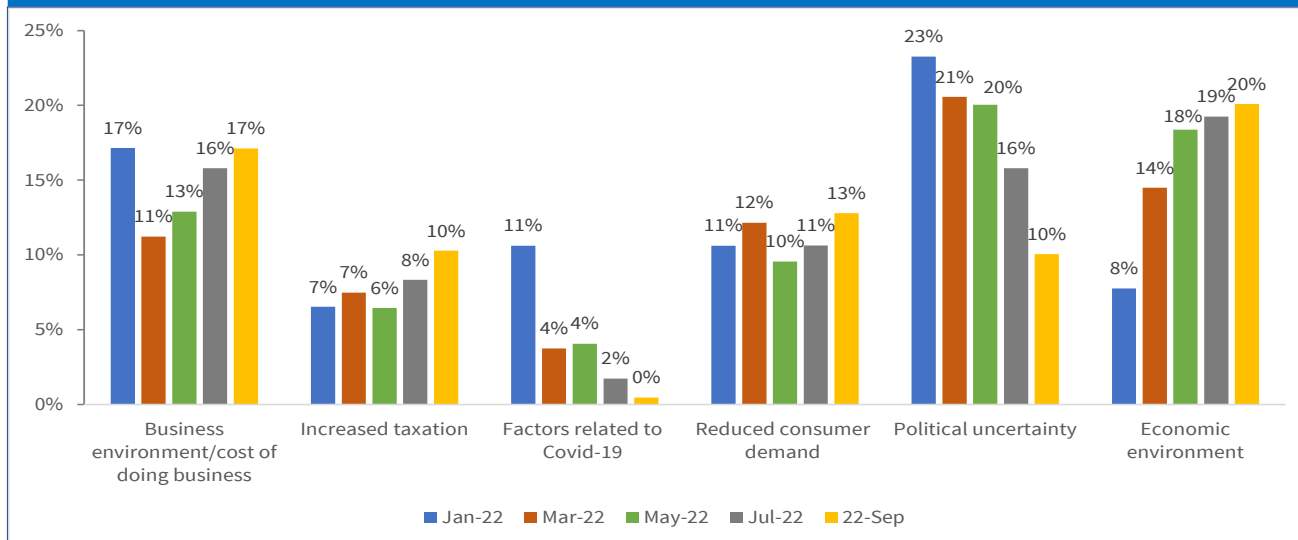


8. FACTORS CONSTRAINING EXPANSION OVER THE NEXT 12 MONTHS

The Survey sought to establish the factors that could constrain the growth and/or expansion of firms over the next one year. The results show that with the conclusion of the elections, concerns over political uncertainty have waned. Nonetheless, respondents continued to highlight the economic environment

(high inflation and the impact of a strong US dollar on the shilling), the business environment (cost of doing business) and reduced consumer demand as factors that could constrain their growth in the near term (**Chart 7**).

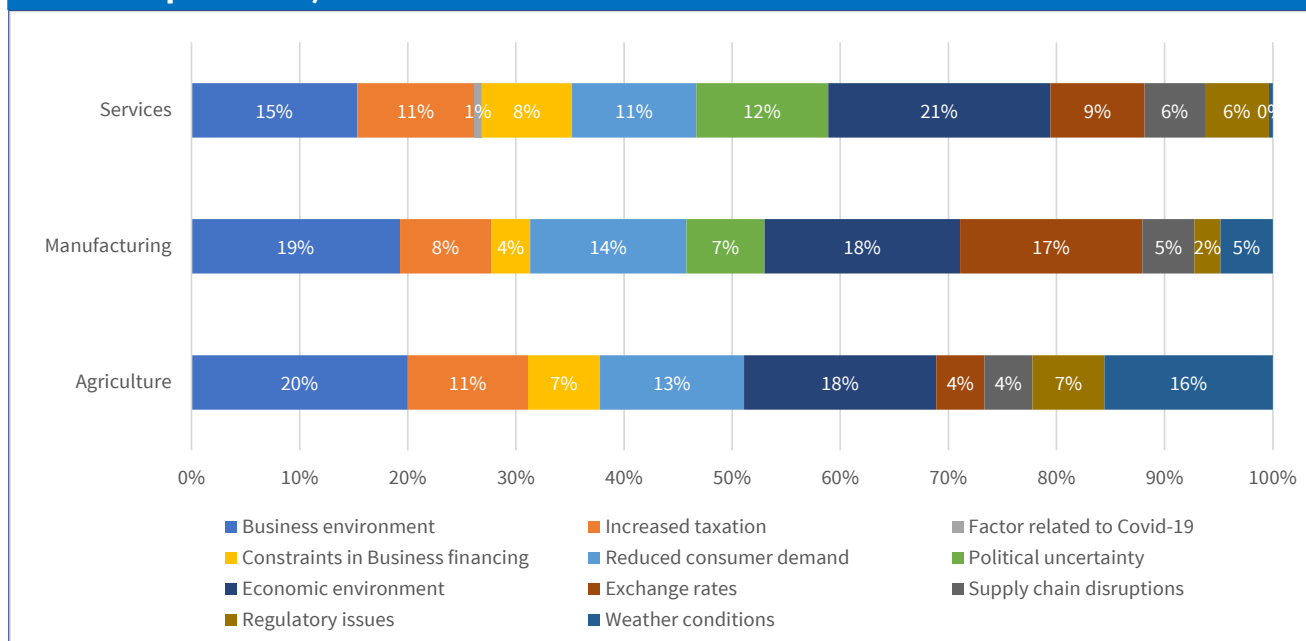
Chart 7: Significant Factors that Constrain Firms' Expansion (percent of respondents)



The economic environment was of greater concern for firms in the manufacturing and services sectors. Firms in the agriculture sector on the other hand were most concerned about the business environment/

cost of doing business, economic environment, and weather conditions (**Chart 8**). Exchange rates and reduced consumer demand was also of concern for businesses in the manufacturing sector.

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



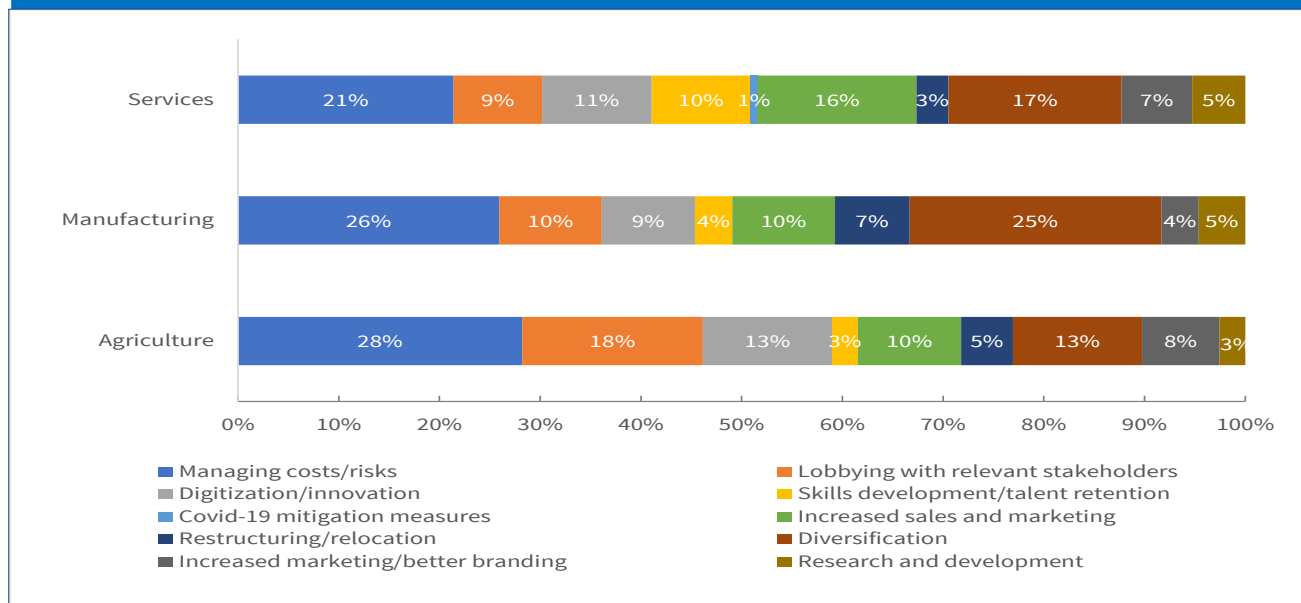
To mitigate the factors constraining growth/expansion, firms proposed various solutions: management of costs and risks, diversification as well as increased sales and marketing (**Chart 9**).

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



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

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

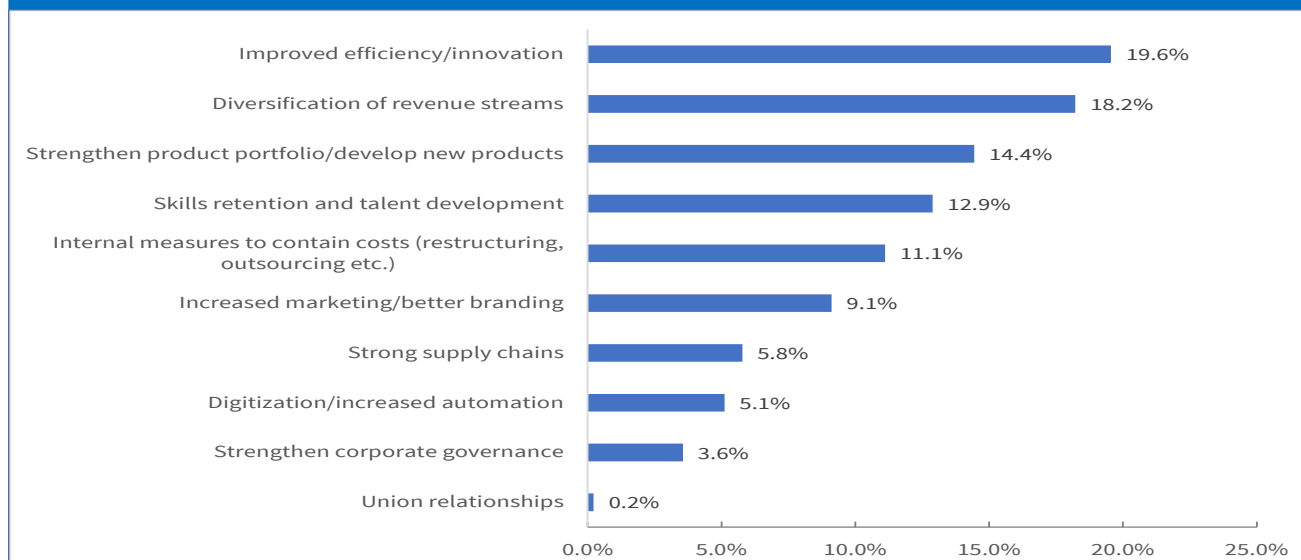


9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

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 diversification of revenue streams as the main internal factors that could strengthen outlook across all sectors. Strengthening product portfolio as well as skills retention and talent also continue to be important internal factors to strengthen outlook for majority of firms (**Chart 11**).

A sectoral analysis of the identified internal factors revealed that strong supply chains and internal measures to contain costs were important factors for manufacturing and agriculture sector firms. In the services sector, increased marketing/better branding and internal measures to contain costs were important factors.

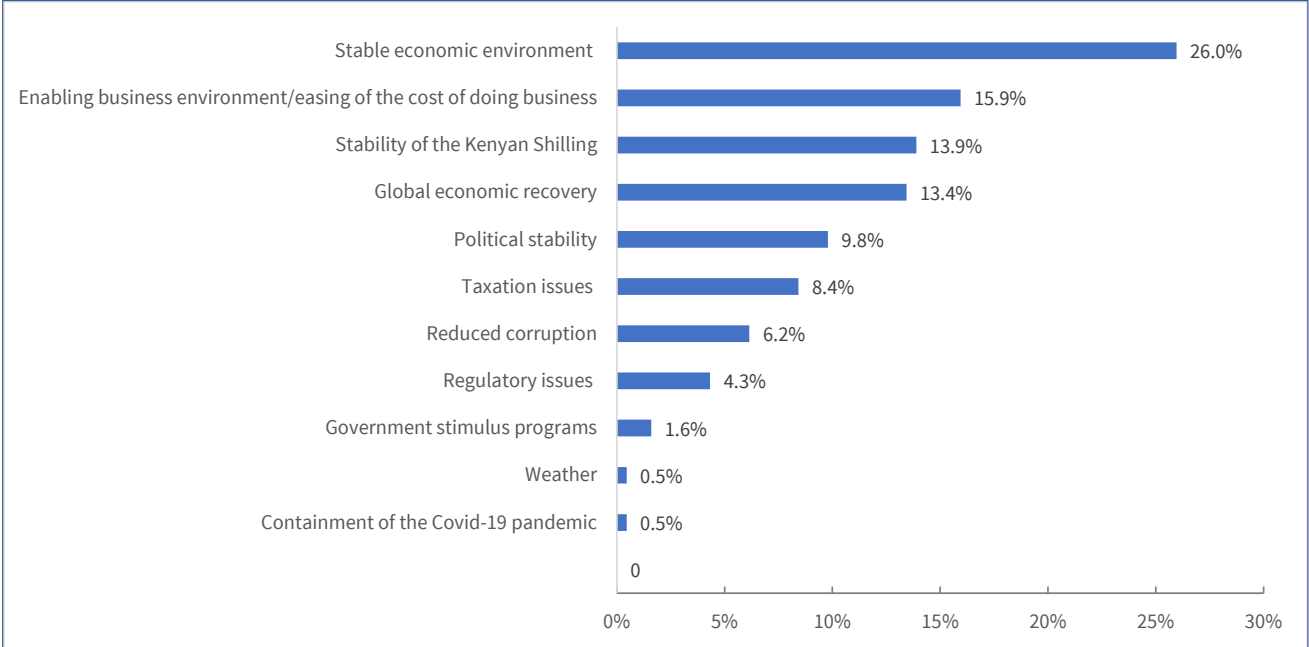
Chart 11: Internal Factors that could Strengthen Firms' Outlook (percent of respondents)



A stable economic environment, an enabling business environment and stability of the Kenyan Shilling as well as global economic recovery were identified as top external factors across all sectors

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

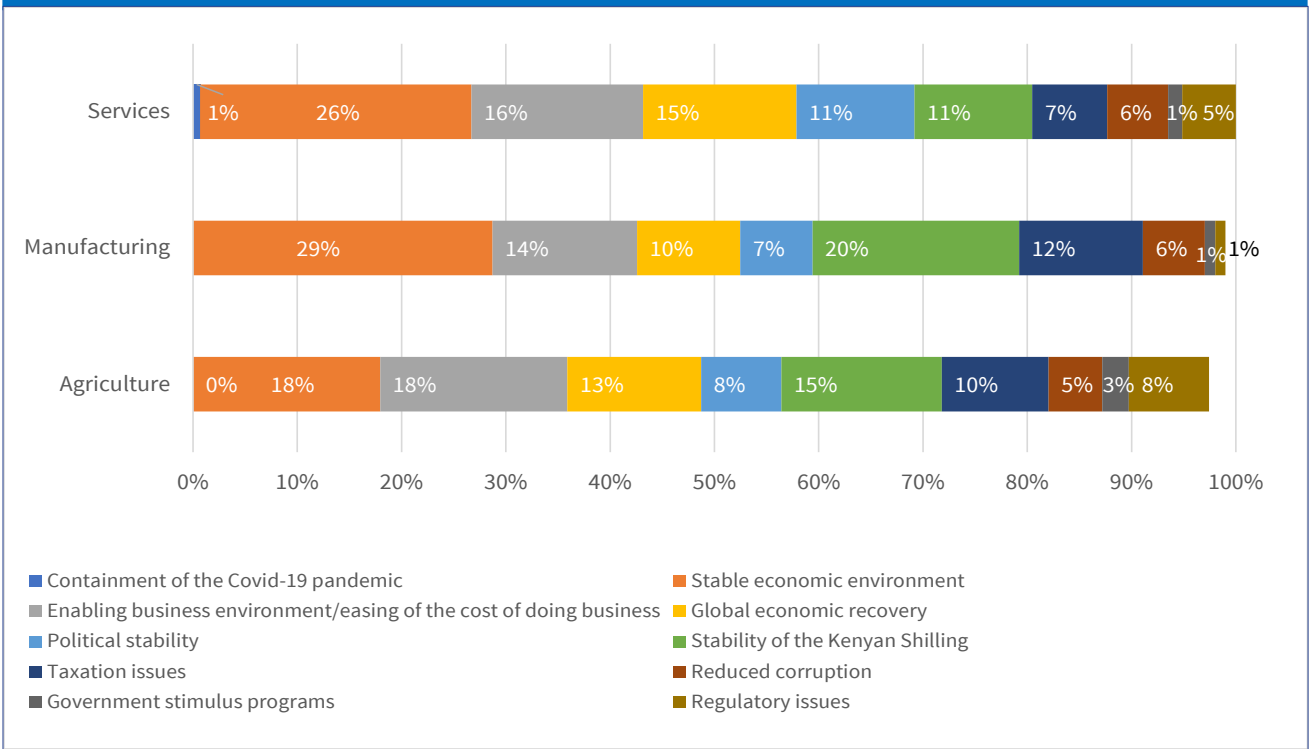
Chart 12: External Factors that could Strengthen Firms' Outlook (percent of respondents)



Besides the top three factors identified in **Chart 12**, reduced corruption was equally an important factor for all sectors. Manufacturing and services sector

firms also highlighted taxation issues as an important factor that could strengthen firms' outlook (**Chart 13**).

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

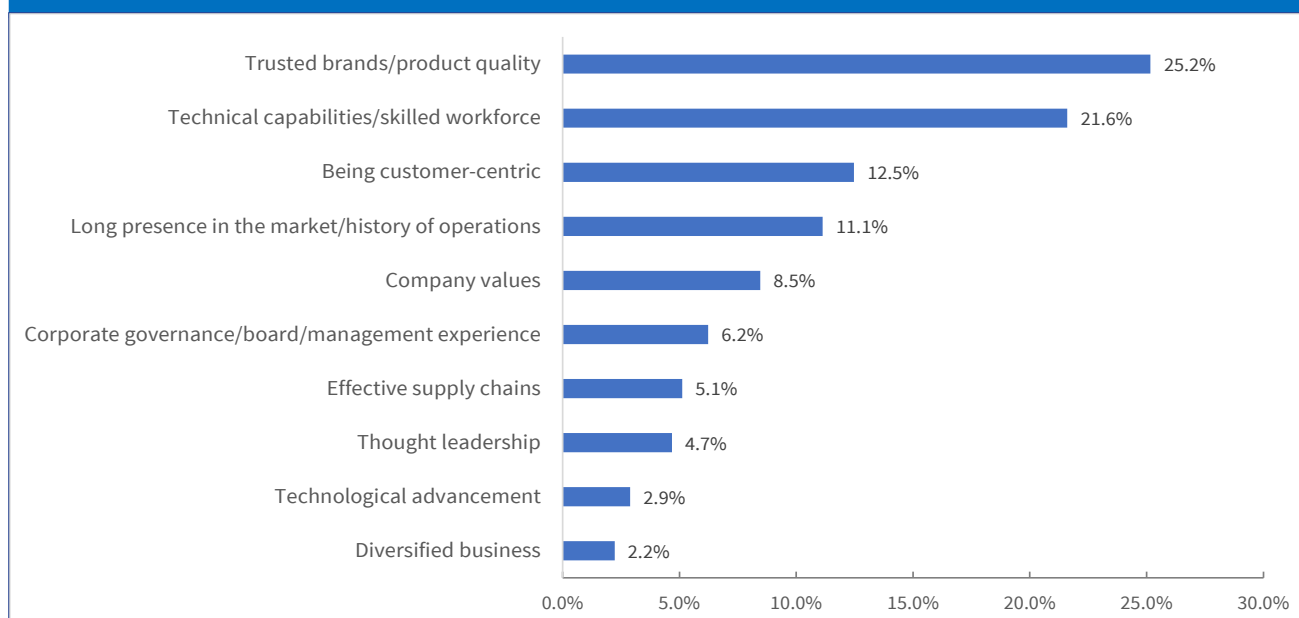


10. TOP COMPANY STRENGTHS

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

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

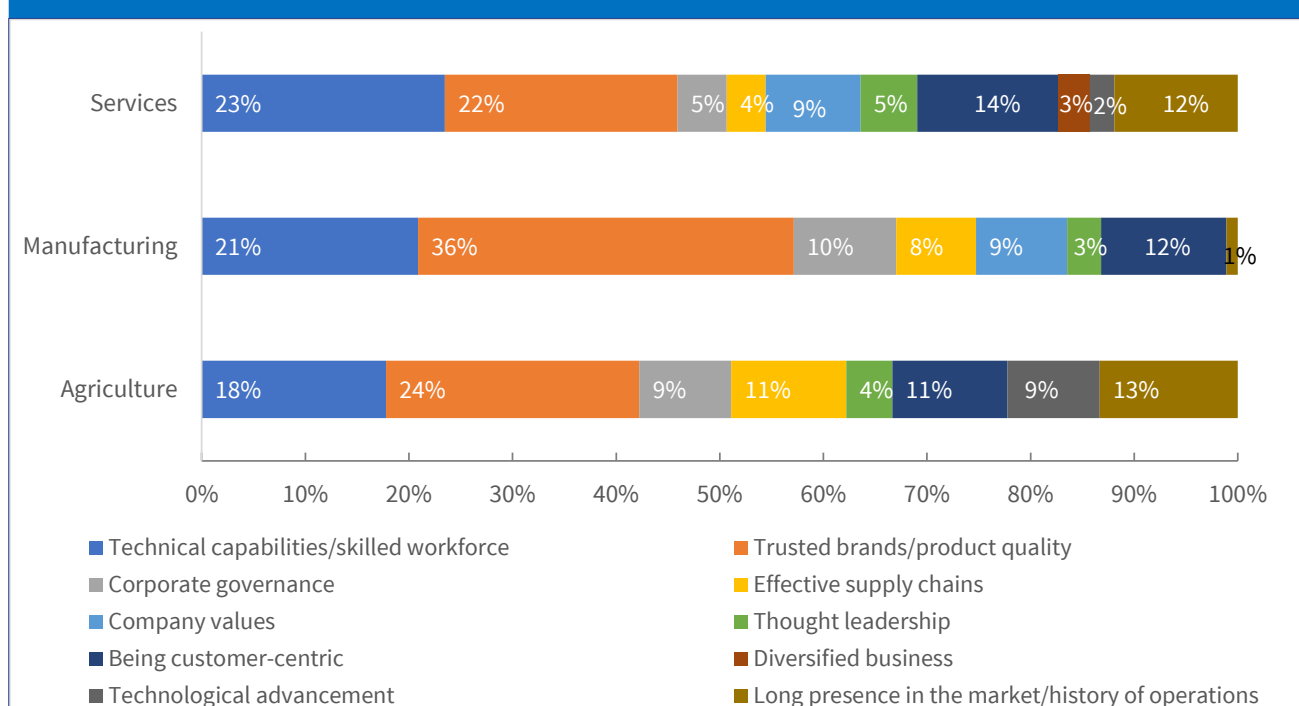
Chart 14: Firms' Top Strengths (percent of respondents)



At the sector level, besides technical capabilities and trusted brands/product quality, customer centricity and company values were significant factors for firms in the services and manufacturing sectors. Effective

supply chains were similarly important for the latter. Trusted brands, customer centricity, long presence in the market and effective supply chains were key strength for the agriculture sector firms **(Chart 15)**.

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

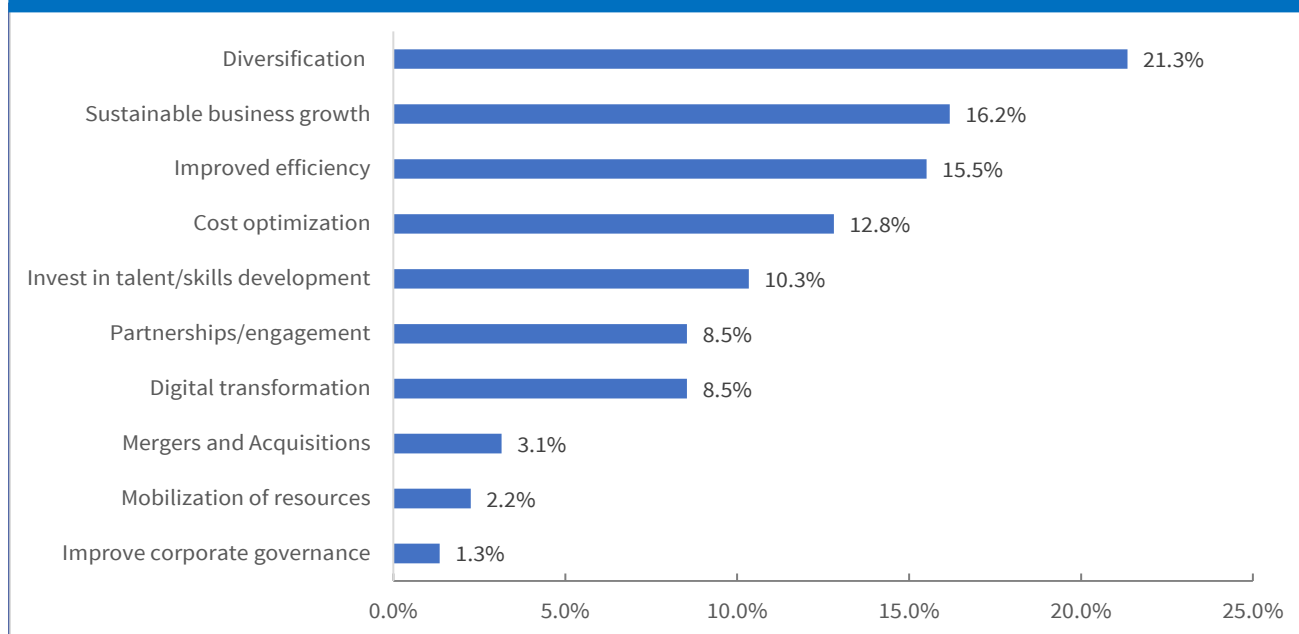


11. STRATEGIC PRIORITIES

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

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

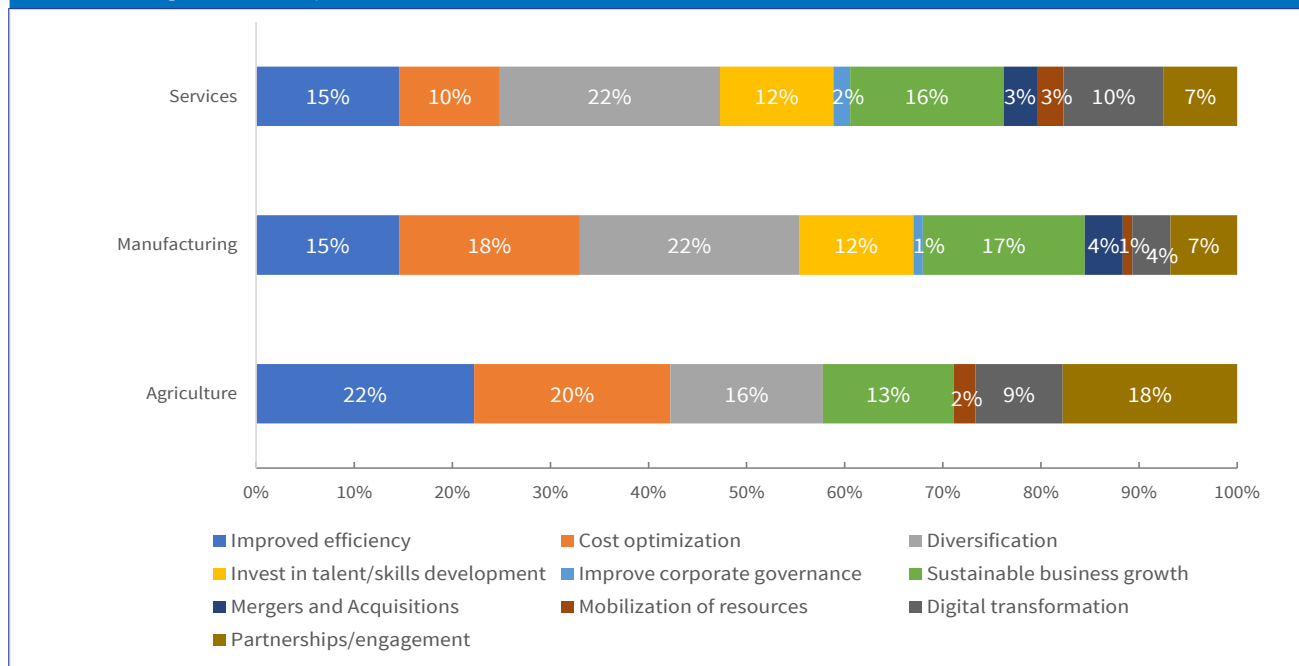
Chart 16: Firms' Strategic Priorities over the Next Three Years (percent of respondents)



Other than the common factors identified across all sectors, firms in the services sector identified investing in talent and skills development as

another important factor. Cost optimization was an equally important priority for the manufacturing and agricultural sectors (**Chart 17**).

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



12. CONCLUSION

The September 2022 CEOs Survey revealed stronger business optimism about company and sectoral growth prospects, across all sectors. This optimism was mainly attributed to renewed post-election investor confidence and anticipated new government policies as well as sector specific growth opportunities. However, respondents highlighted concerns over domestic and global inflation, energy costs, poor weather conditions, declining consumer demand and the lingering war in Ukraine which could constrain growth.

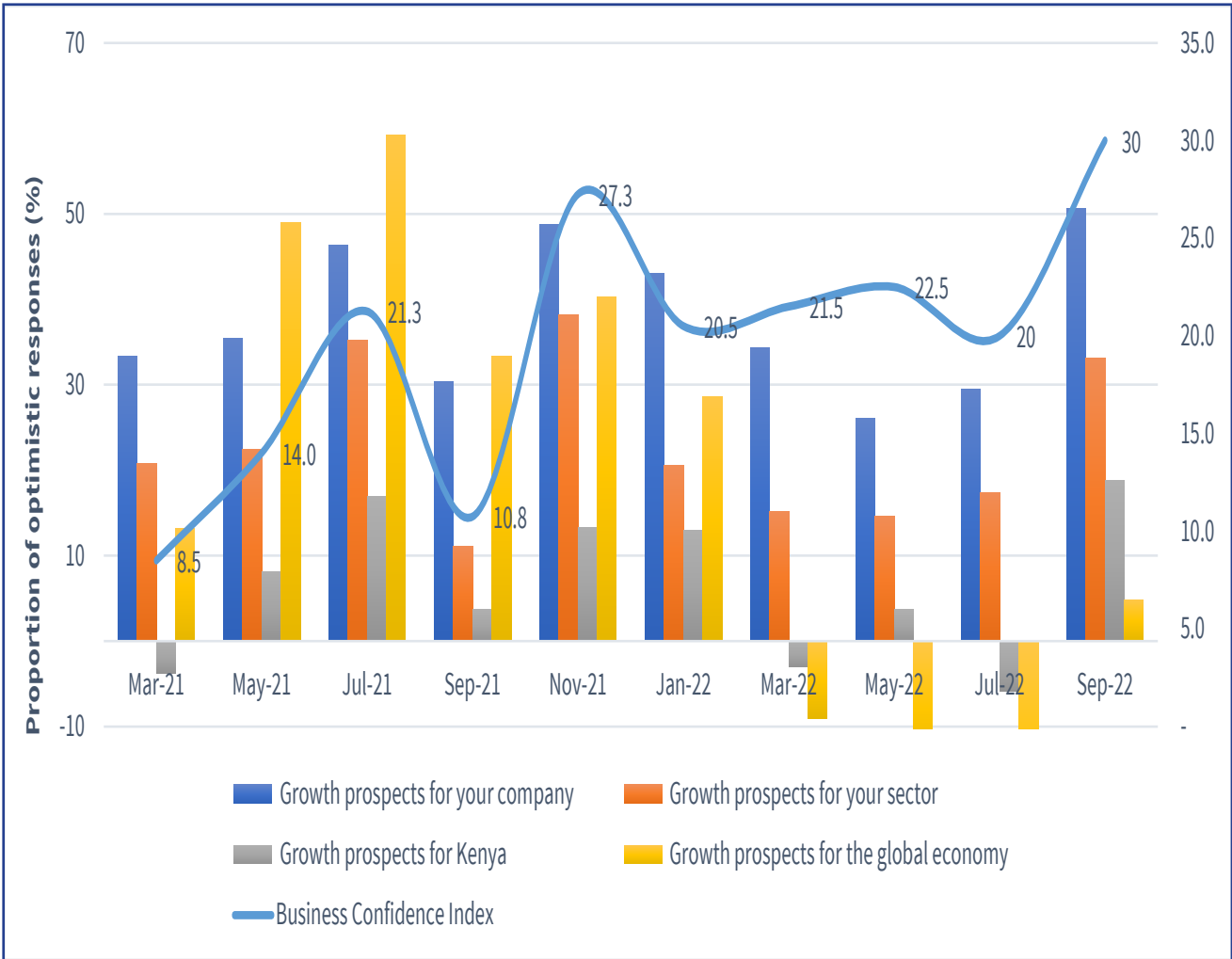
Business activity in 2022 Q3 was reported to be subdued compared to 2022 Q2. This was due to reduced business activity prior to elections even as demand for goods and services remained subdued due to consumers holding back spending. Firms also reported that input costs remained elevated due to high energy, food and other commodity prices.

Business activity in 2022 Q4 is expected to improve. Respondents expect that demand/orders, production volumes and sales will increase for majority of businesses. Firms attribute this to anticipated increased business opportunities in the EAC and African markets as well as seasonal factors for specific sectors. Nevertheless, high input costs are expected to persist due to inflation, recently introduced excise taxes, increased fuel costs, poor weather conditions, and the effects of the lingering war in Ukraine.

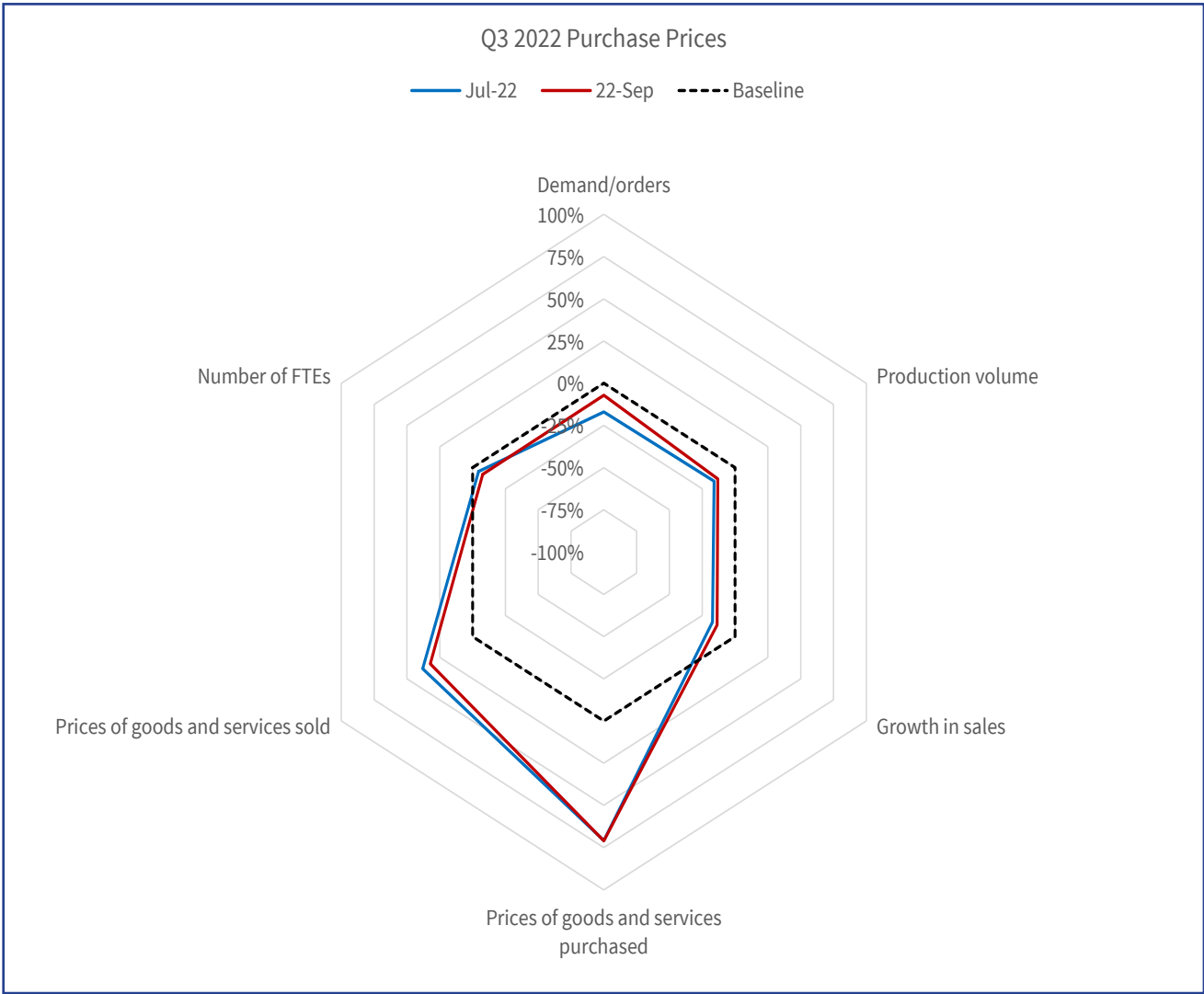
With the conclusion of the elections, concerns over political uncertainty have waned. Nonetheless, respondents continued to highlight the economic environment (high inflation and the effects of a stronger US dollar on the shilling), the business environment (cost of doing business) and reduced consumer demand as factors that could constrain their growth in the near term. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, increased sales and marketing and digitisation of their operations.

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

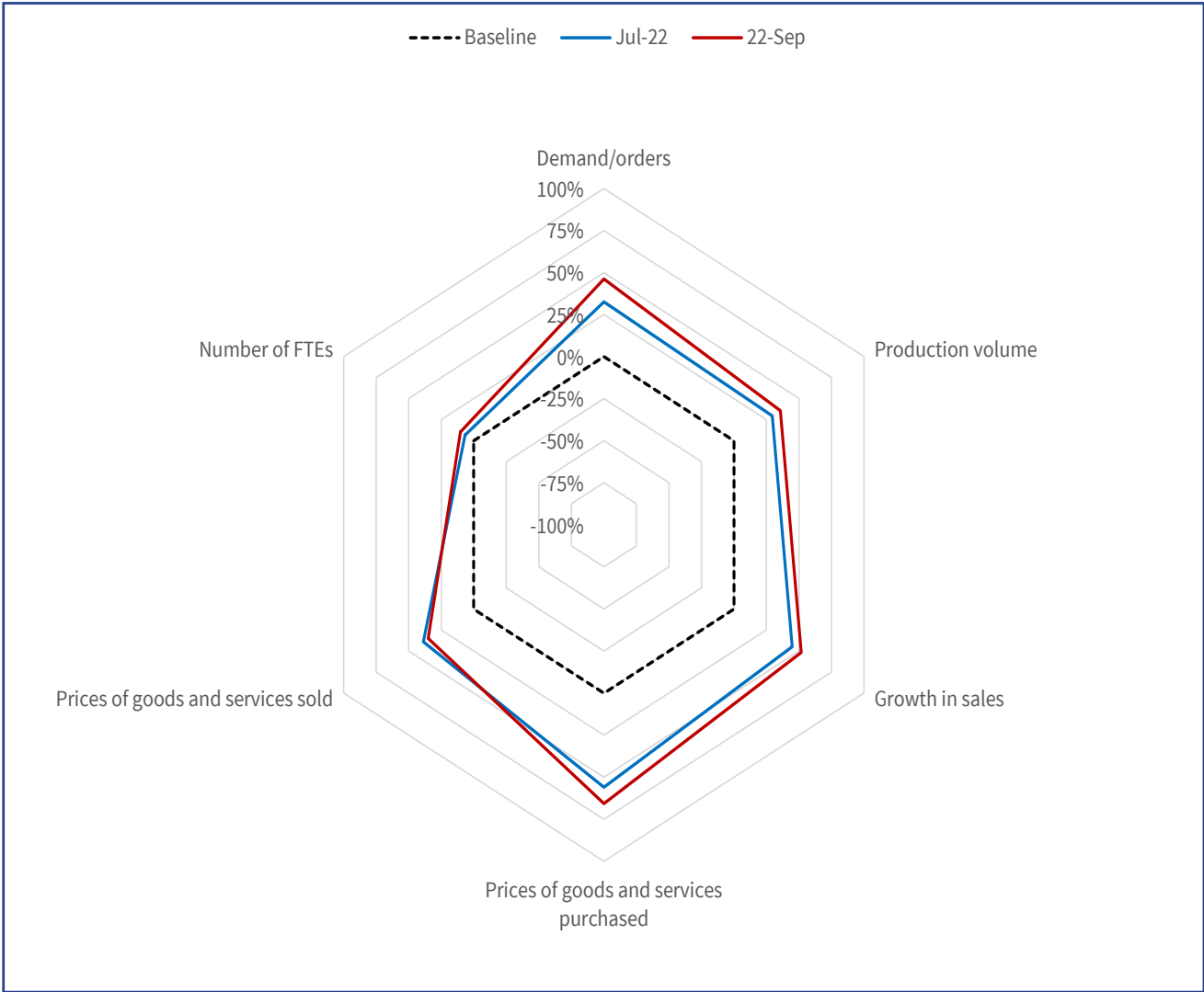
ANNEX 1: CBK BUSINESS CONFIDENCE INDEX



ANNEX 2A: Q3 2022 PURCHASE PRICES



ANNEX 2B: EXPECTATIONS OF Q4 2022 PURCHASE PRICES





Central Bank of Kenya

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