

Central Bank of Kenya

CEO's Survey

January 2023

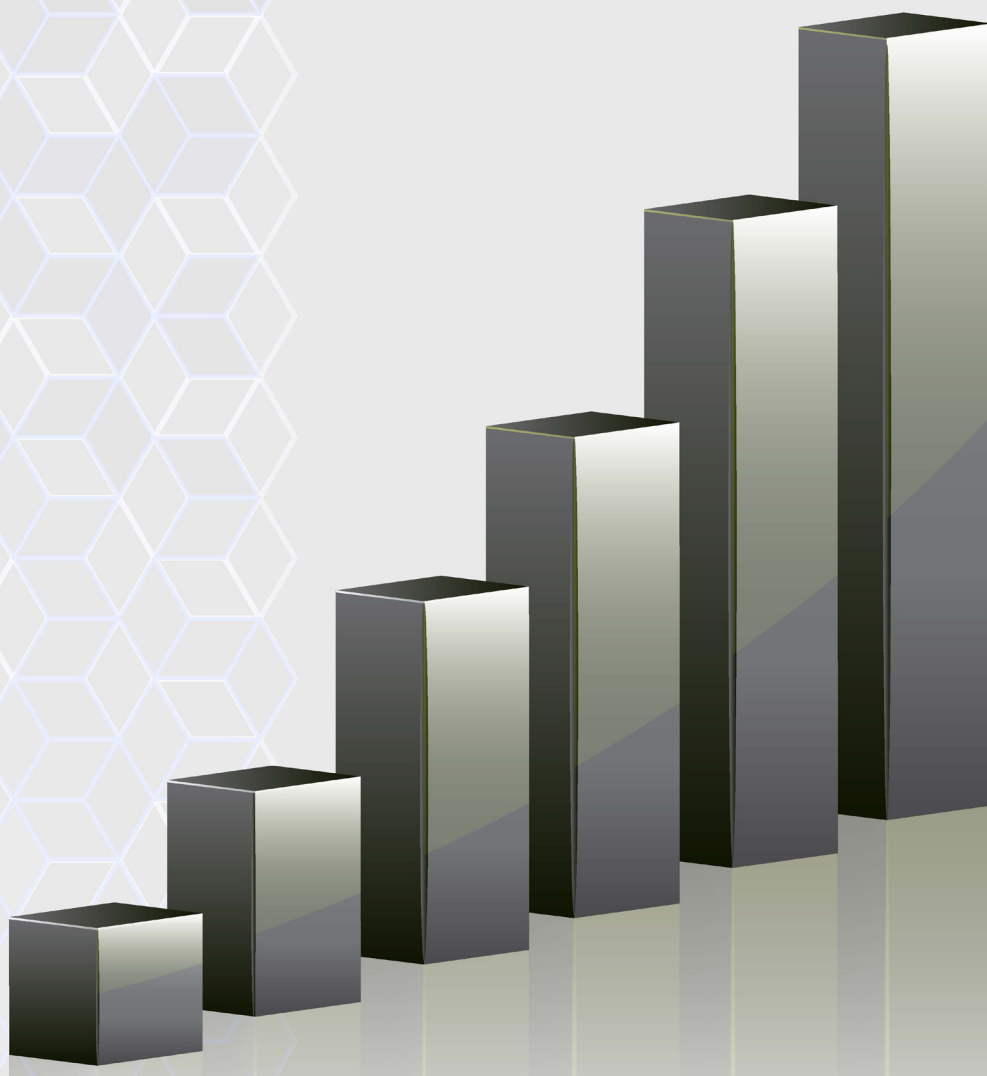


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1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the other surveys (Market Perceptions Survey and Agriculture Sector Survey) conducted by the CBK every two months prior to the Monetary Policy Committee (MPC) meetings. The objective of the Survey is to capture information on top firms' perceptions, expectations and issues of concern. The Survey provides CBK a sharper picture of the evolving economy, complementing information from other sources, thereby facilitating better decision by the MPC.

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 drivers and threats to firms' growth, 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 January 3 and 13, 2023. 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 four (Q4) compared to 2022 quarter three (Q3), and their expectations for economic activity in the first quarter of 2023 (Q1). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (January 2023 – December 2023), as well as the strategic directions and solutions to address their key constraining factors over the medium term (January 2023 – November 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 (20 percent), financial services (17 percent), professional services (11 percent), agriculture (10 percent), ICT and telecommunications (6 percent), transport and storage (6 percent), and tourism, hotels and restaurants (5 percent), health and pharmaceuticals (4 percent), real estate (4 percent), mining and energy (3 percent), building and construction (3 percent). Other sectors such as education, security, wholesale and retail trade, and media accounted for two percent each or less.

Majority of the respondents (62 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses and publicly listed domestic companies. Forty four percent of the respondents had a turnover of over Ksh 1 billion in 2019. In terms of employment, 44 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:

- Sustained business optimism about company and sectoral growth prospects. This optimism was mainly attributed to increased business activity during the festive season, government focus on specific sectors notably agriculture, building and construction, and ICT, as well as growth opportunities especially in the financial services sector. However, respondents highlighted concerns over newly introduced taxes, high interest rates, rising cost of electricity, and the weakening Kenya Shilling.
- Optimism regarding growth prospects for the Kenyan and global economy remained largely unchanged even though previous concerns such as global inflation, recession fears and the war in Ukraine have moderated.

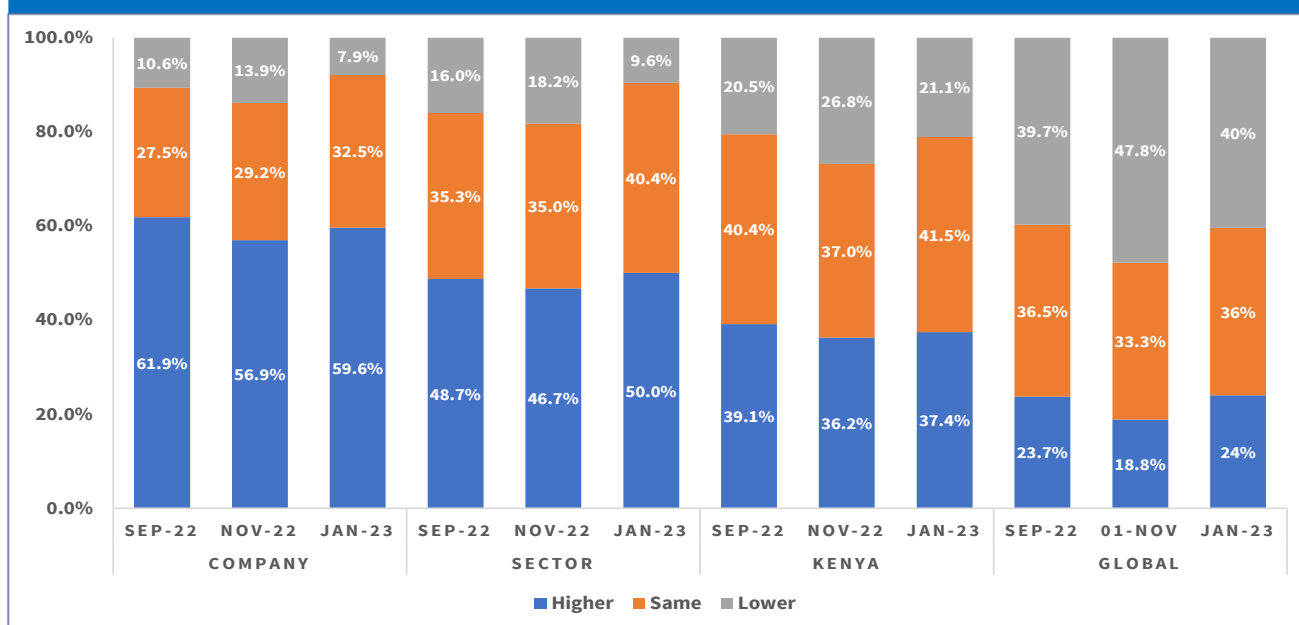
- Respondents reported improved performance of business activity in 2022 Q4 compared to 2022 Q3. Besides seasonal factors, business activity was generally on a positive trajectory following conclusion of the elections, a factor which continued to the end of the year.
- Surveyed firms expect continued improvement in business activity in 2023 Q1. Respondents expect demand/orders, production volumes and sales to increase for majority of businesses. Specific sectors also expect to experience increased demand and production due to seasonal factors. Nevertheless, introduction of new taxes, rising cost of electricity and uncertainty of the global conditions were highlighted as the main factors that could constrain the business environment.
- Customer centricity, expansion into new markets and talent management were identified as the key drivers of firms' growth.
- Respondents highlighted the economic environment (high inflation and the performance of the local currency) and the business environment (cost of doing business) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, global recession and high energy prices as threats to their expansion. 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.
- A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms' outlook in 2023.

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 more optimistic about the growth prospects for their own companies and sectors (**Chart 1**). Optimism was mainly attributed to increased business activity during the festive season, government focus on specific sectors notably agriculture, building and construction, and ICT, as well as growth opportunities especially in the financial services sector. Firms also reported increased opportunities for business especially in tourism, education, financial services and building and construction sectors.

Optimism regarding growth prospects for the Kenyan economy remained largely the same buoyed by the Government's focus on agriculture, MSMEs and building and construction sectors. Previous concerns on the business environment eased on account of reducing fuel prices, good prospects for exports and the easing of the strict China COVID-19 controls which is expected to further ease supply chain constraints. Nonetheless, respondents highlighted concerns over newly introduced taxes, high interest rates, rising cost of electricity, and the weakening Kenya Shilling which could dampen the country's growth prospects.

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



On the global economy, optimism was also largely unchanged even though previous concerns over global inflation, recession fears and disruptions from the war in Ukraine have moderated. The increased optimism in company and sectoral growth prospects led to a slight increase in the Business Confidence Index **(Annex 1)**.

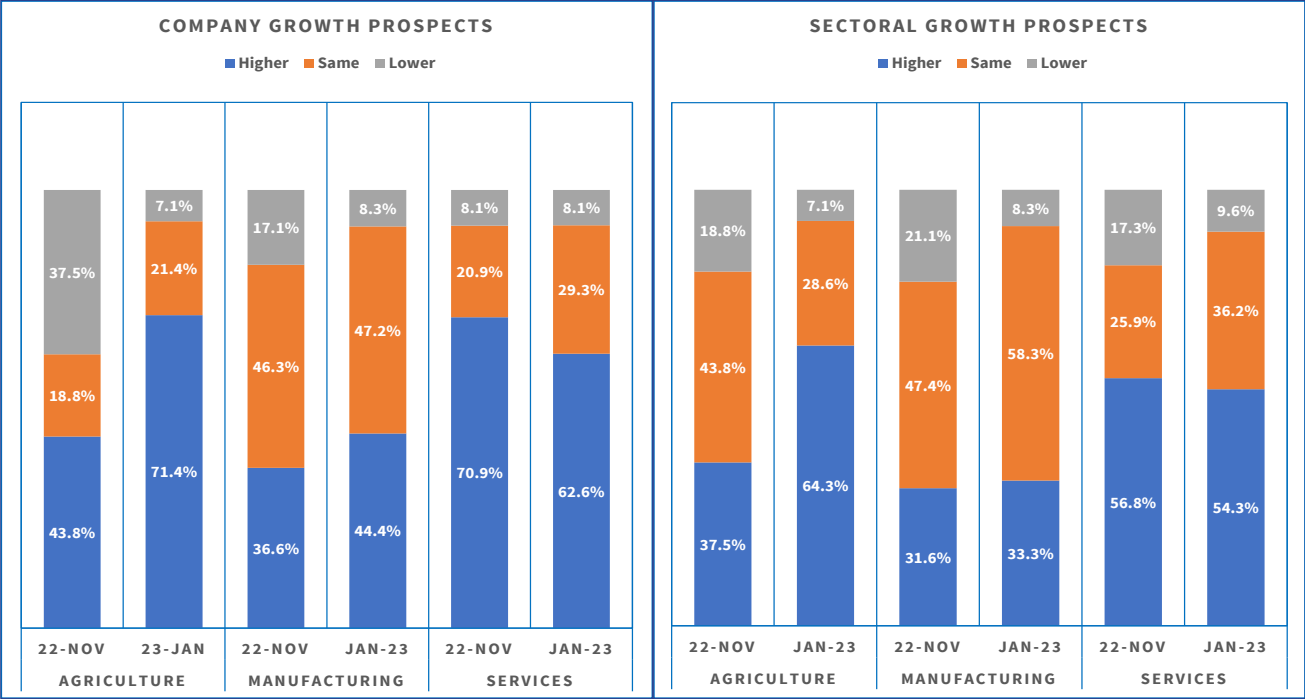
Unlike in the past where optimism was higher in the services sector, agriculture sector reported higher optimism in the latest Survey compared to other sectors **(Chart 2)**. Respondents attributed their optimism to increased Government support for the sector and increased export orders. Sector players expect continued growth, with global demand for food on an upward trajectory especially with the falling inflation in export markets and the reducing effects of the COVID-19 pandemic. Nevertheless, respondents remained cautious about the high cost of inputs and the weather conditions which could affect agricultural production.

Majority of respondents in the manufacturing sector, reported that growth prospects for their company and sector would remain largely the same over the

next 12 months. While respondents see a marked recovery from the effects of Covid-19 pandemic, they remain concerned about the high cost of credit and higher taxation. In particular, it was noted that excise taxes could result in high levels of illicit trade of various products leading to loss of revenue for manufacturers.

In the services sector, respondents noted that with the elections concluded and the COVID-19 pandemic largely under control, the economy was on a stabilization path as economic agents resume much of their activities unlike in the previous two years. The tourism and travel industry which was one of the hardest hit by the pandemic was reported to be experiencing remarkable growth. Respondents in the tourism and financial sectors reported renewed investor interest by international companies while firms in the ICT sector also reported growth prospects due to deployment of new technology and the diversification of product portfolios. Nevertheless, respondents noted that the the removal of subsidies could lead to additional pressure on manufacturing as well as households.

Chart 2: Sectoral Analysis of Growth Prospects over the next 12 months (percent of respondents)



6. BUSINESS ACTIVITY IN 2022 Q4 COMPARED TO 2022 Q3

The Survey sought CEOs perceptions on business activity in the fourth quarter of 2022 compared to the third quarter of 2022. The Survey revealed that business activity was on a positive trajectory following conclusion of the elections, a trend that continued to the end of the year. Majority of businesses reported financing their operations through own resources and bank loans in the fourth quarter of 2022.

Demand/orders, production volumes and sales were higher or the same for majority of respondents supported by seasonal factors especially for tourism, horticulture (flowers), education, transport and storage sectors **(Chart 3)**. The prices of goods and services purchased remained elevated due to high input costs.

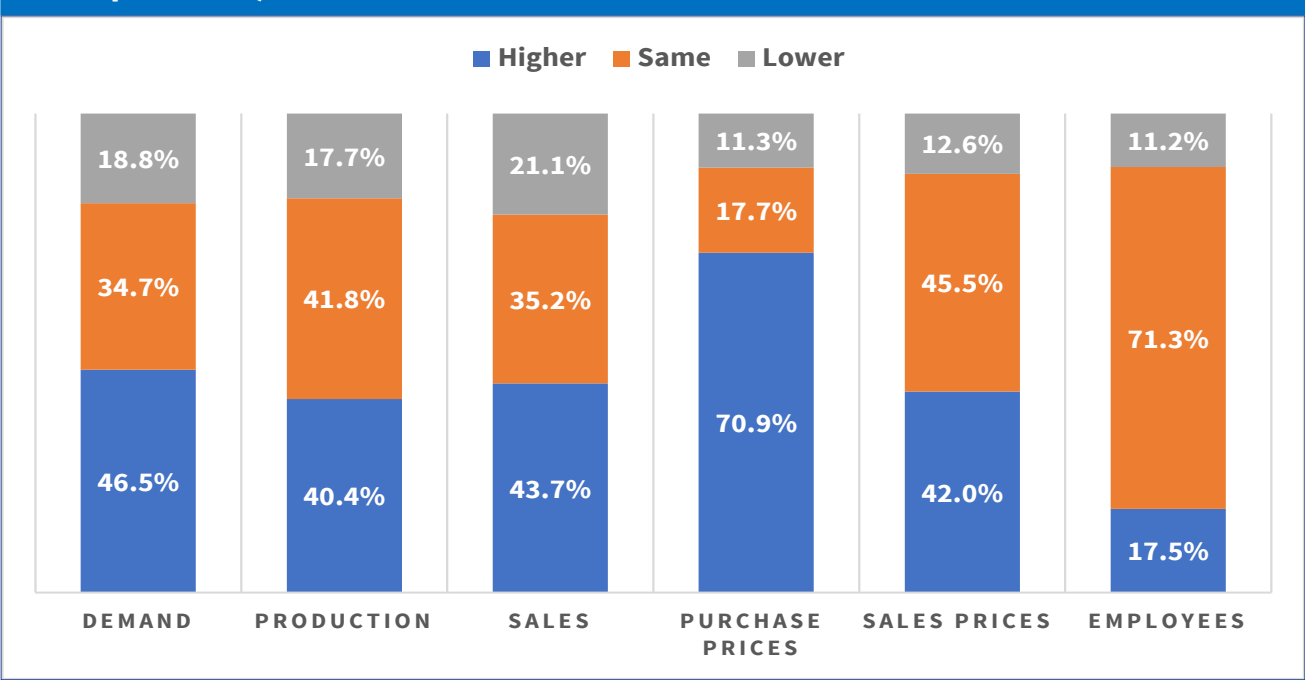
Firms in the agriculture sector reported higher demand although the supply was affected by the

dry weather conditions which majorly affected smallholder farmers. Firms also reported some reduction in prices of fertilizers during the fourth quarter of 2022, with this reduction expected to remain in next quarter.

Firms in the manufacturing sector reported increased business activity on account of seasonal factors. The post-election period witnessed a strengthening of economic activity which resulted in recovery in the business environment. Nevertheless, respondents highlighted some constraints including but not limited to high input costs and successive excise tax increases which negatively impacted businesses.

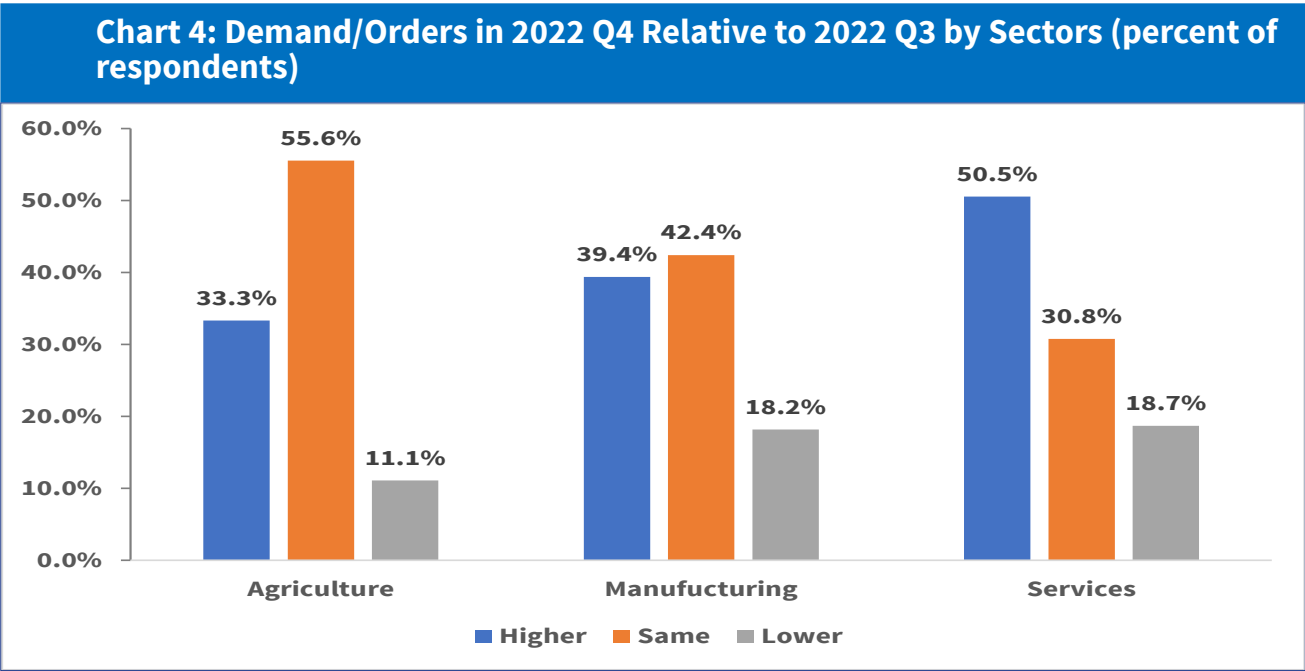
In the services sector, firms reported a general increase in demand for goods and services due to seasonal factors. This was especially so for education, financial services, tourism and transport and storage firms. Nonetheless, inflation pressures, though easing remained a key concern.

Chart 3: Business Activity in 2022 Q4 Compared to 2022 Q3 (percent of respondents)



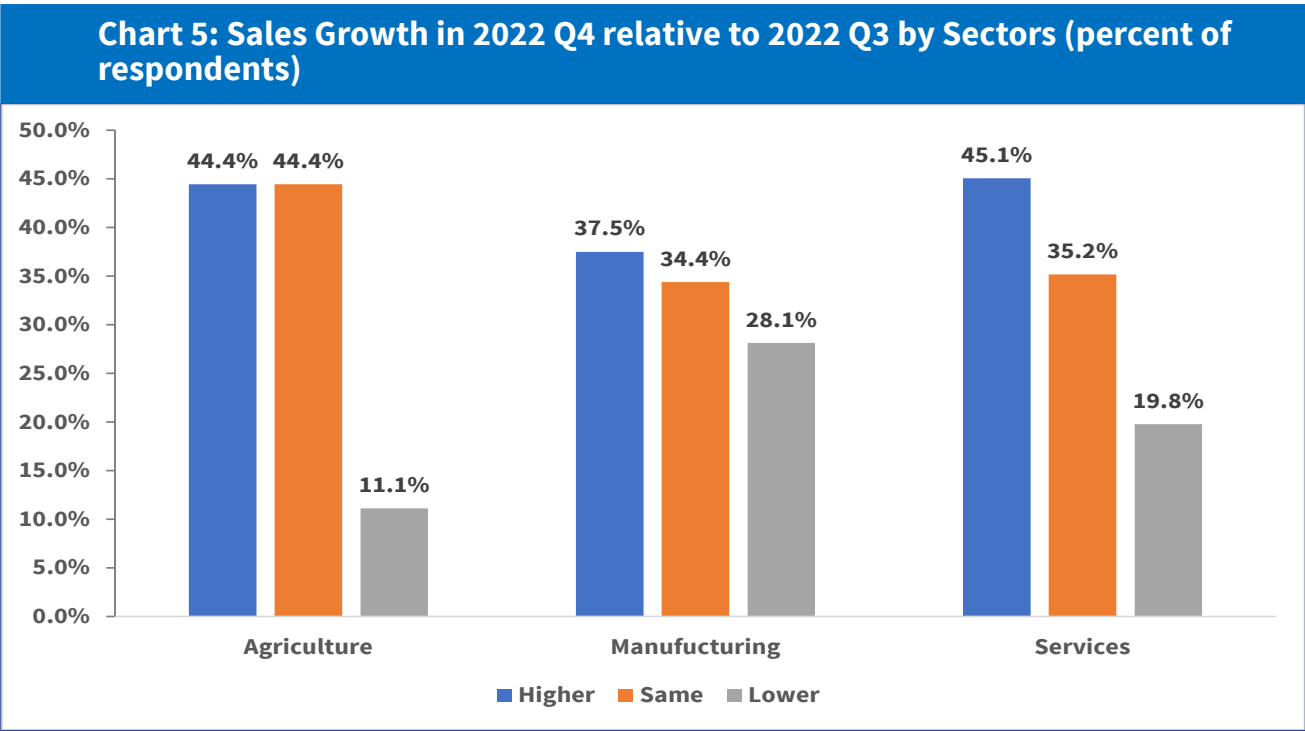
In terms of sectoral demand in the fourth quarter of 2022, agriculture sector firms reported demand/orders remaining largely the same because of depressed markets especially in the key export

markets and due to inflation adversely affecting cost of inputs. Nonetheless, respondents noted that production volumes would be higher due to late planting season following poor rainfall **(Chart 4)**.



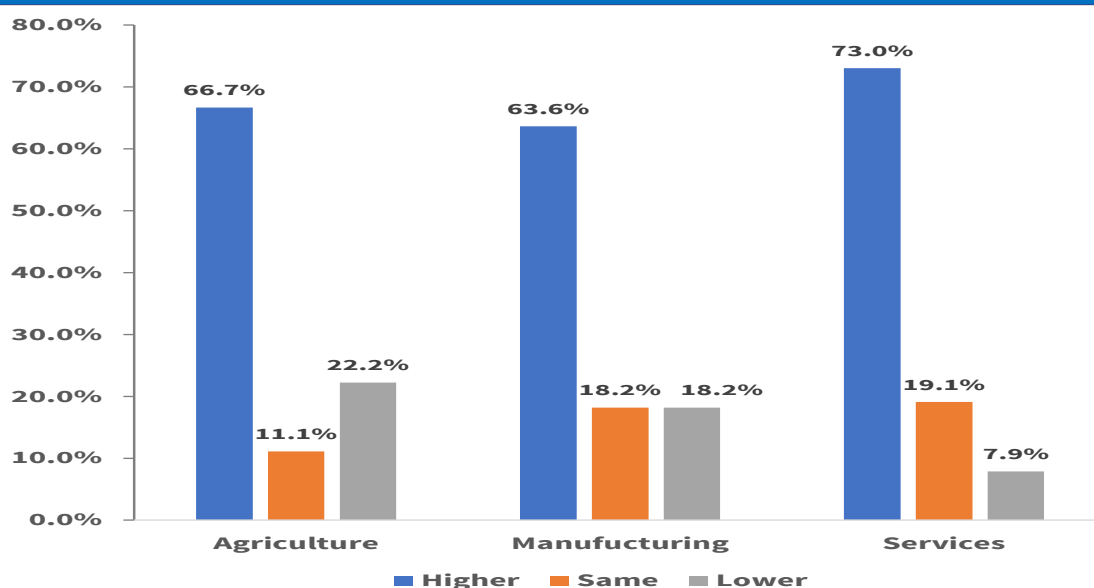
Services sector firms reported higher sales growth compared to other sectors **(Chart 5)**. This was attributed to a pick up in business activity following conclusion of the elections. Specific sectors also witnessed increased sales due to seasonal factors. The tourism sector in particular was quite bullish

with business travel growing due to pent up demand. Agriculture and manufacturing sector firms also witnessed higher sales growth despite the business environment being constrained by factors such as the high cost of inputs.



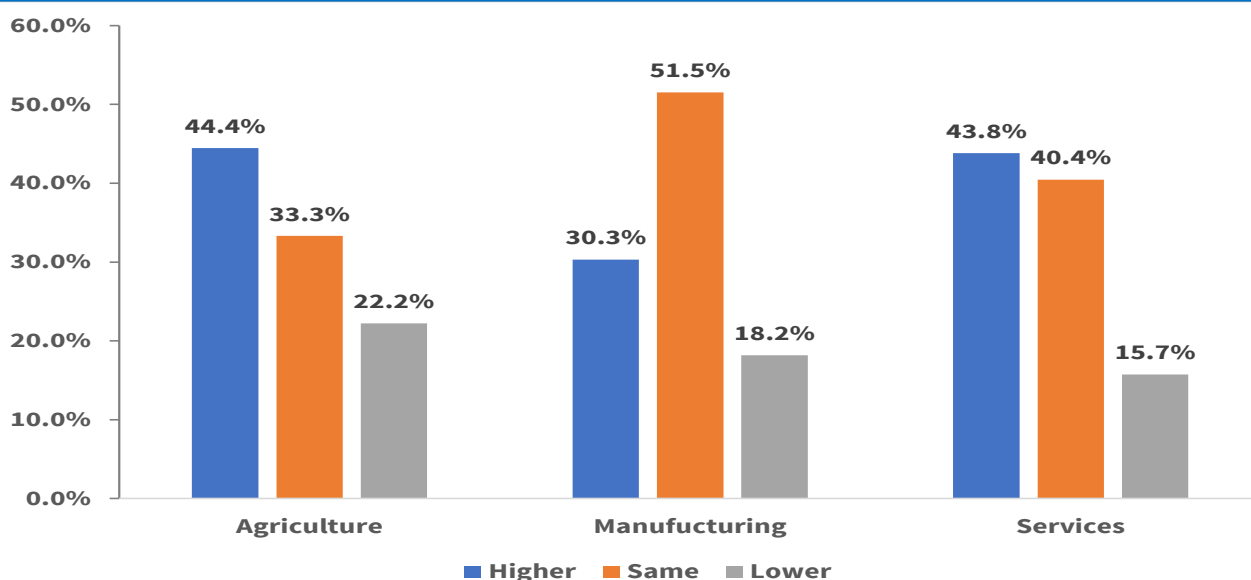
Rising inflation and the impact of a weakening Shilling remained a concern for majority of respondents across all sectors (**Chart 6** and **Annex 2**).

Chart 6: Purchase Prices in 2022 Q4 Compared to 2022 Q3 by Sectors (percent of respondents)



Production volumes were higher especially for majority of firms in the agriculture and services sector as economic activity normalized and firms sought to meet pent-up demand (**Chart 7**).

Chart 7: Production volumes in 2022 Q4 Compared to 2022 Q3 by Sectors (percent of respondents)

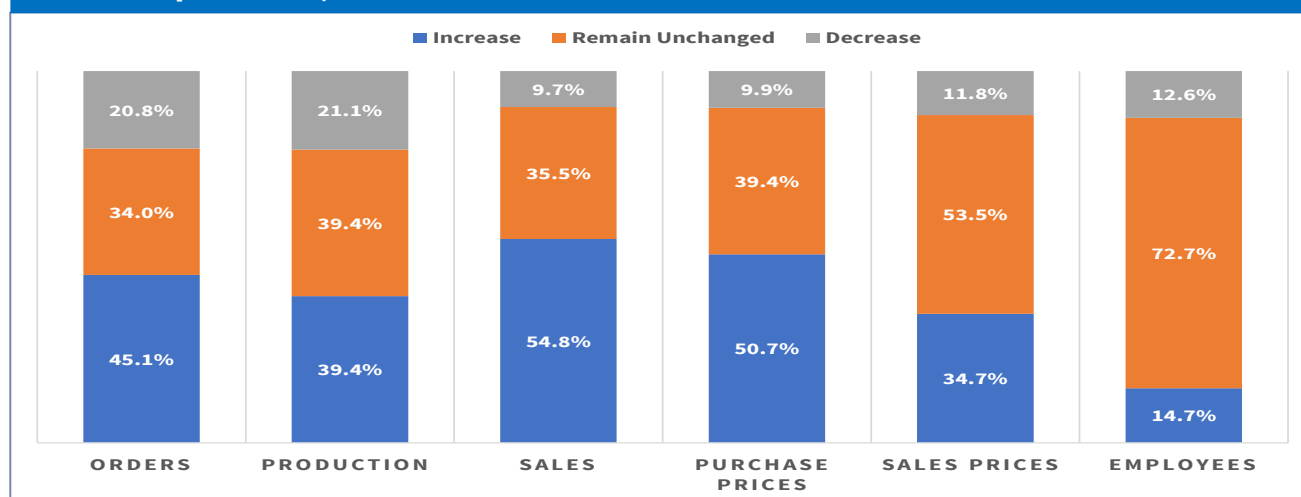


7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q1 COMPARED TO 2022 Q4

The Survey sought CEOs expectations of business activity in the first quarter of 2023 relative to the fourth quarter of 2022. The CEOs reported that the

business momentum witnessed in the fourth quarter of 2022 was expected to continue in 2023 Q1 (**Chart 8**).

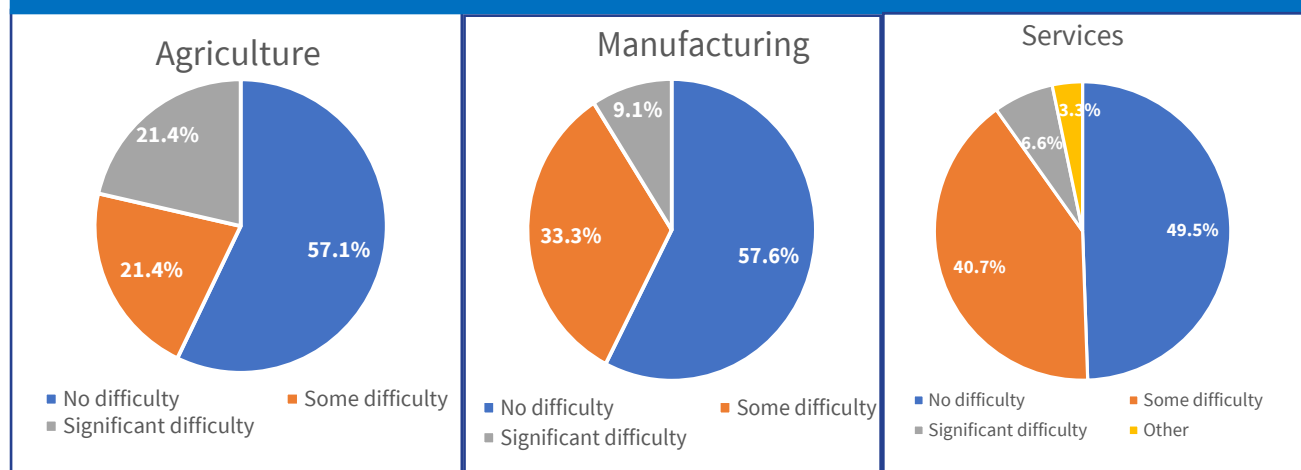
Chart 8: Outlook on Business Activity in 2023 Q1 compared to 2022 Q4 (percent of respondents)



Demand/orders, production volumes and sales are all expected to improve for majority of respondents as economic conditions remain largely unchanged. Businesses in the wholesale and retail trade, financial services and education sectors expect to be supported by seasonal factors. Though demand and sales are expected to increase, respondents envisage that the inflationary pressures, though easing, are likely to impact purchase prices. Additionally, although global inflation is easing and energy costs have recently reduced, electricity costs are on the rise and the future of the war in Ukraine remains uncertain (**Annex 3**).

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 9**). Firms reported having sufficiently invested in infrastructure hence being continuously ahead of demand pressures. Firms which reported possible difficulty in expanding their operations cited the high cost of doing business, lack of a conducive business environment, difficulties in recruitment and supply chain difficulties as the main reasons constraining their ability to expand. Other reasons cited included reduced market activity; financing challenges; internal operational constraints; and limited freight capacity.

Chart 9: Potential Level of Difficulty in Meeting Increased Demand or Sales (percent of respondents)

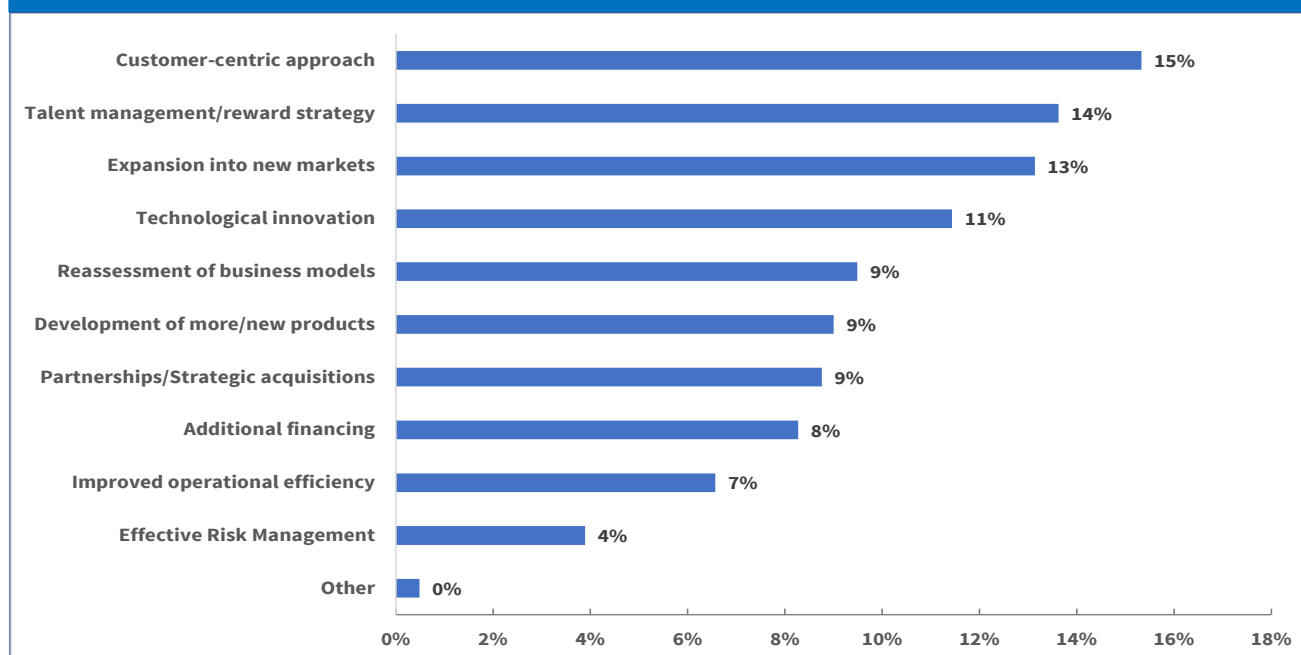


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

The Survey sought to establish the drivers of firm expansion and growth, domestic and external factors that could constrain their growth and/or expansion over the next one year and their mitigating factors.

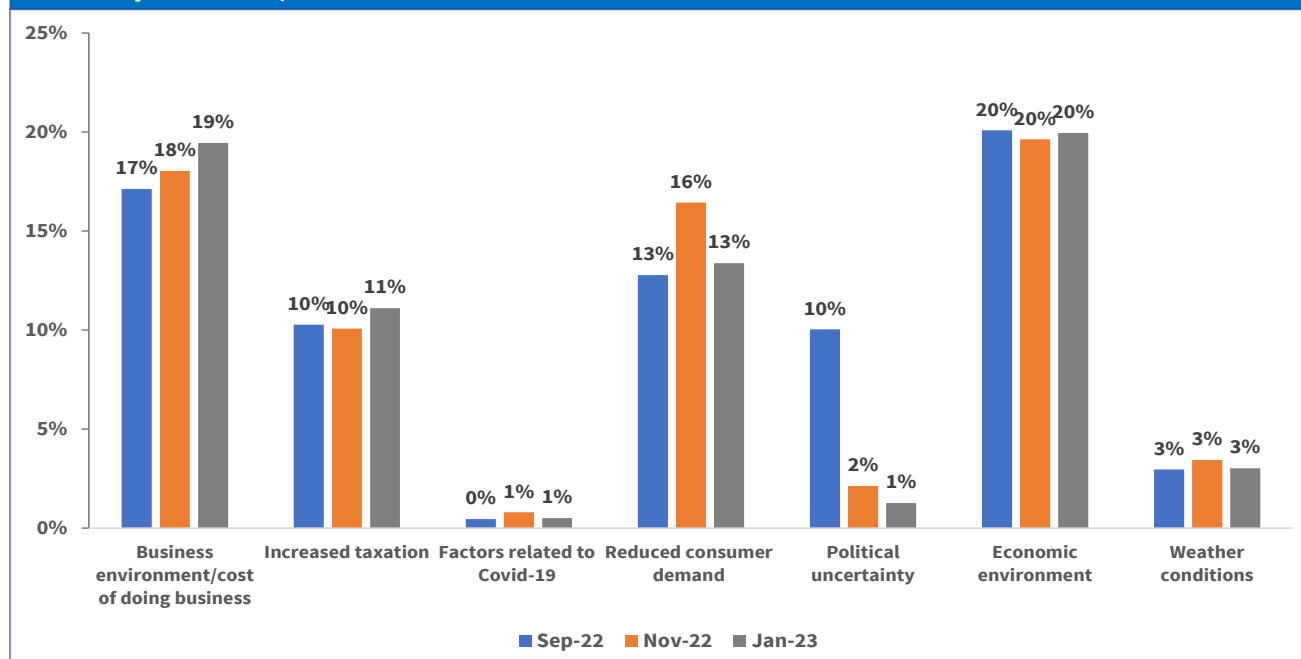
The results show that customer centricity, talent management and expansion into new markets are the key drivers of firms' growth over the next one year (**Chart 10**).

Chart 10: Drivers of Firm Expansion (percent of respondents)



In terms of domestic factors that could constrain their growth, respondents continued to highlight the economic environment (high inflation and performance of the local currency), the business environment (cost of doing business) and reduced consumer demand (**Chart 11**).

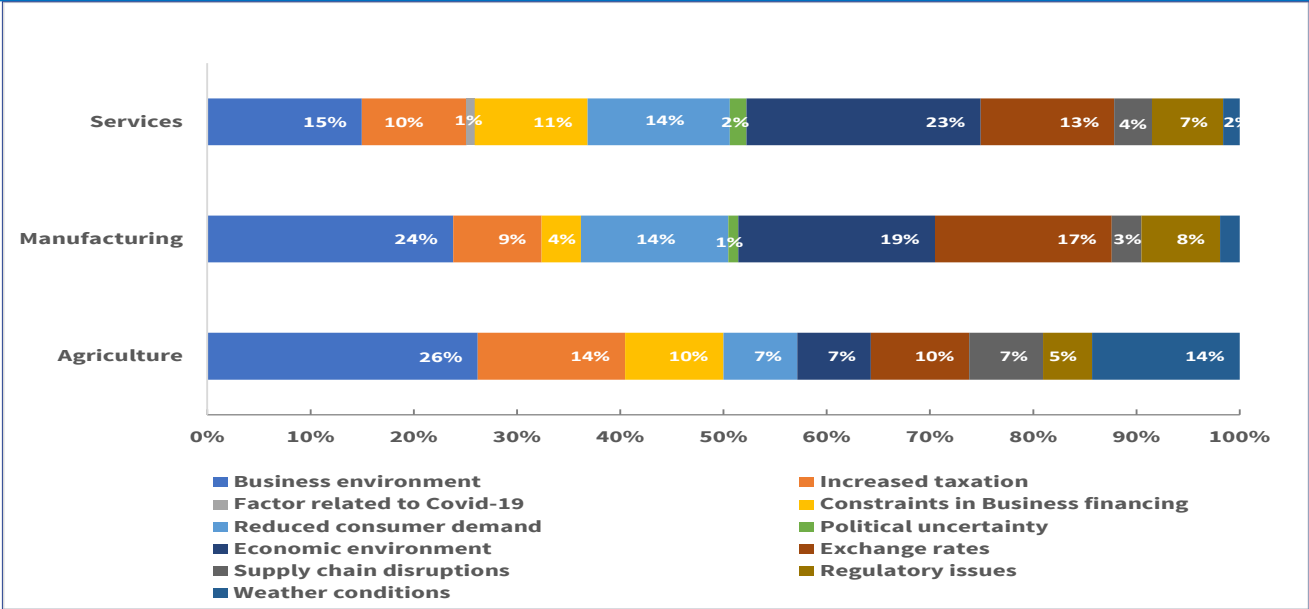
Chart 11: Domestic Factors Constraining Firms' Expansion (percent of respondents)



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

ranking concerns were economic environment and exchange rates, and weather conditions for the manufacturing and agriculture sectors, respectively (Chart 12).

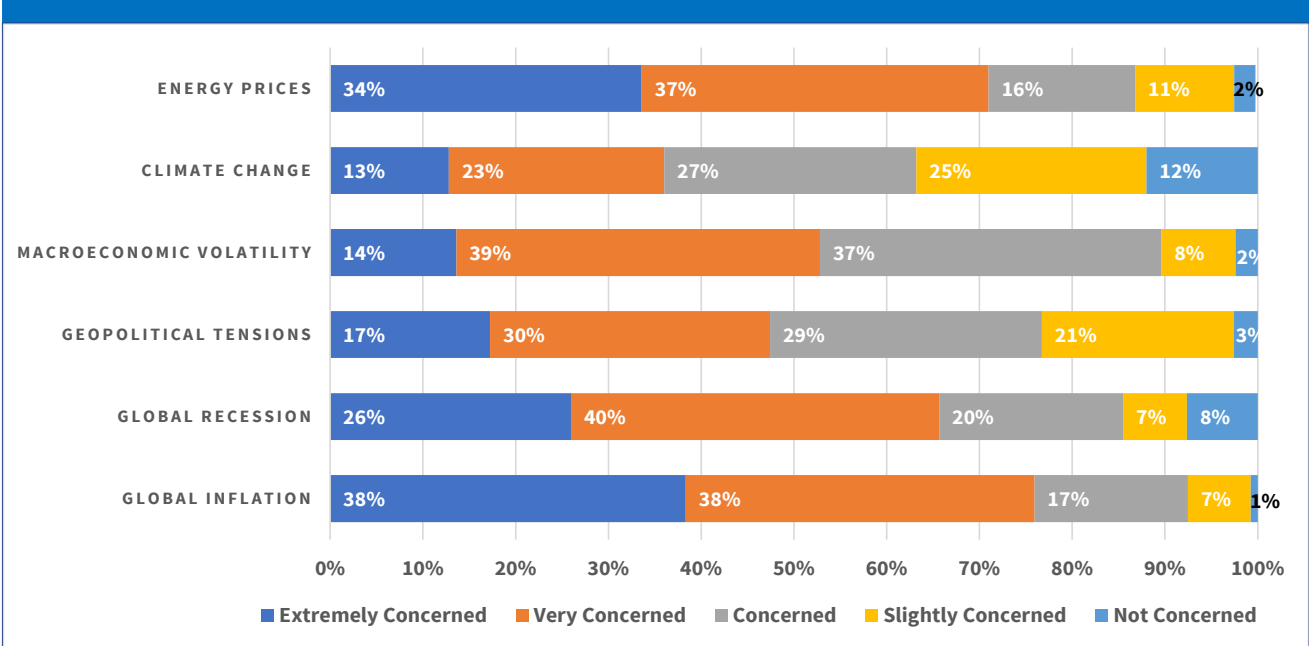
Chart 12: Domestic Factors Constraining Firms' Expansion by Sectors (percent of respondents)



The Survey also sought to establish the top external (non-domestic) threats impacting businesses. Respondents were most concerned about global inflation, high energy prices and recession fears (Chart 13). Agriculture sector firms were most

concerned about energy prices and climate change while manufacturing and services sector firms were most concerned about global inflation and recession fears.

Chart 13: External Threats Impacting Firms' Expansion (percent of respondents)



To mitigate the factors constraining growth/expansion, firms proposed various solutions: management of costs and risks, increased sales and marketing, and diversification of their operations **(Chart 14)**.

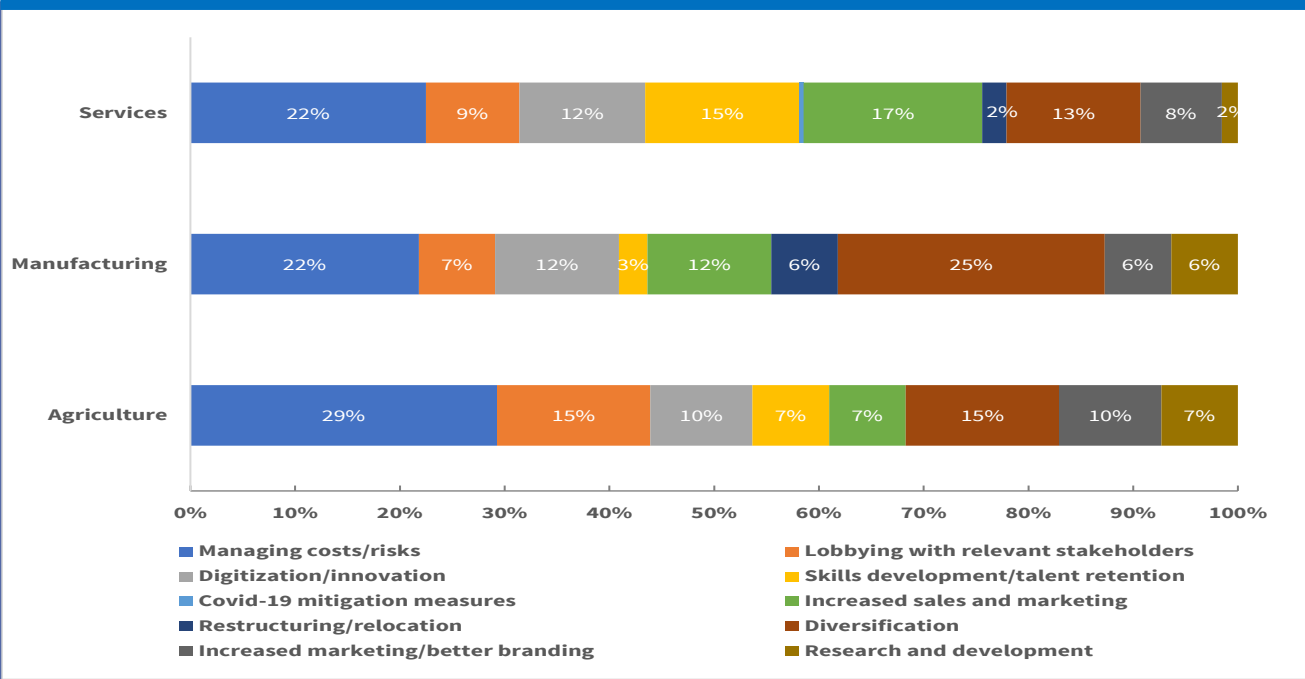
Chart 14: Firms' Proposed Solutions to Factors Constraining Growth (percent of respondents)



Other important factors for respective sectors were skills development and talent management (services sector), increased sales and marketing

(manufacturing sector) and lobbying with relevant stakeholders (agriculture sector) **(Chart 15)**.

Chart 15: Firms' Proposed Solutions to Factors Constraining Growth by Sector (percent of respondents)

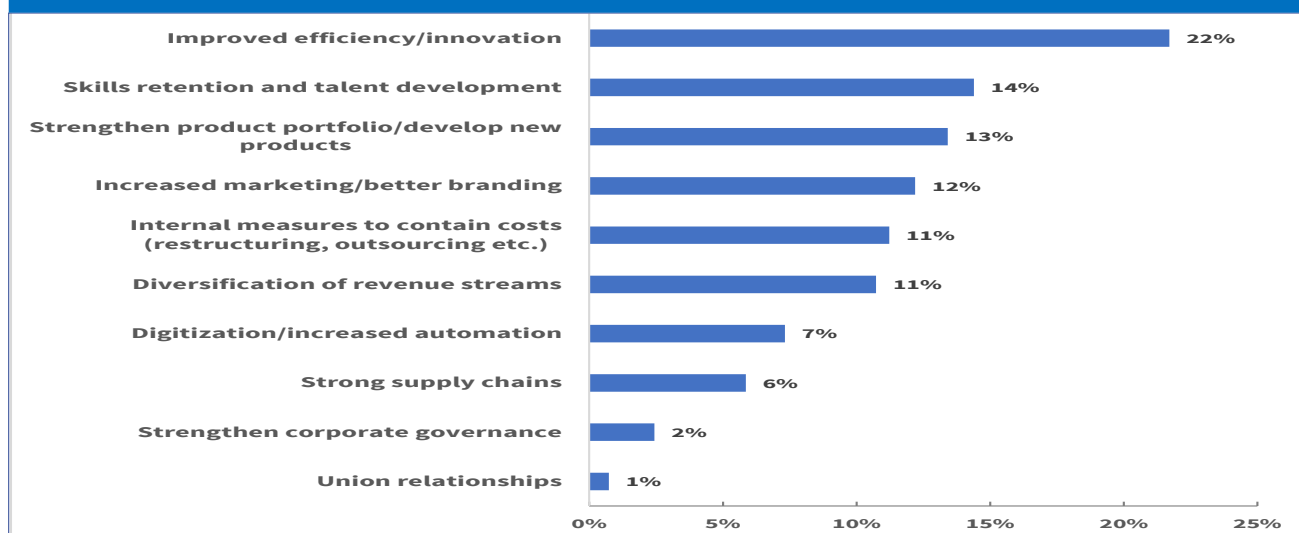


9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

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 skills retention/talent development as the main internal factors that could

strengthen outlook across all sectors. Strengthening product portfolio as well as increased marketing also continue to be important internal factors to strengthen outlook for majority of firms (**Chart 16**).

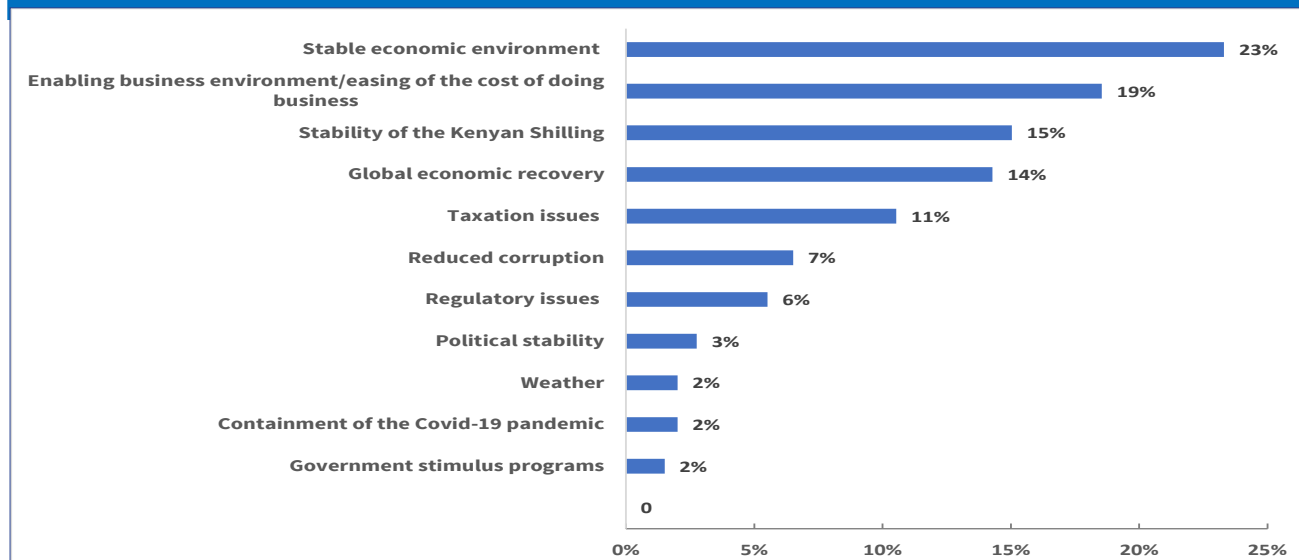
Chart 16: Internal Factors that could Strengthen Firms' Outlook (percent of respondents)



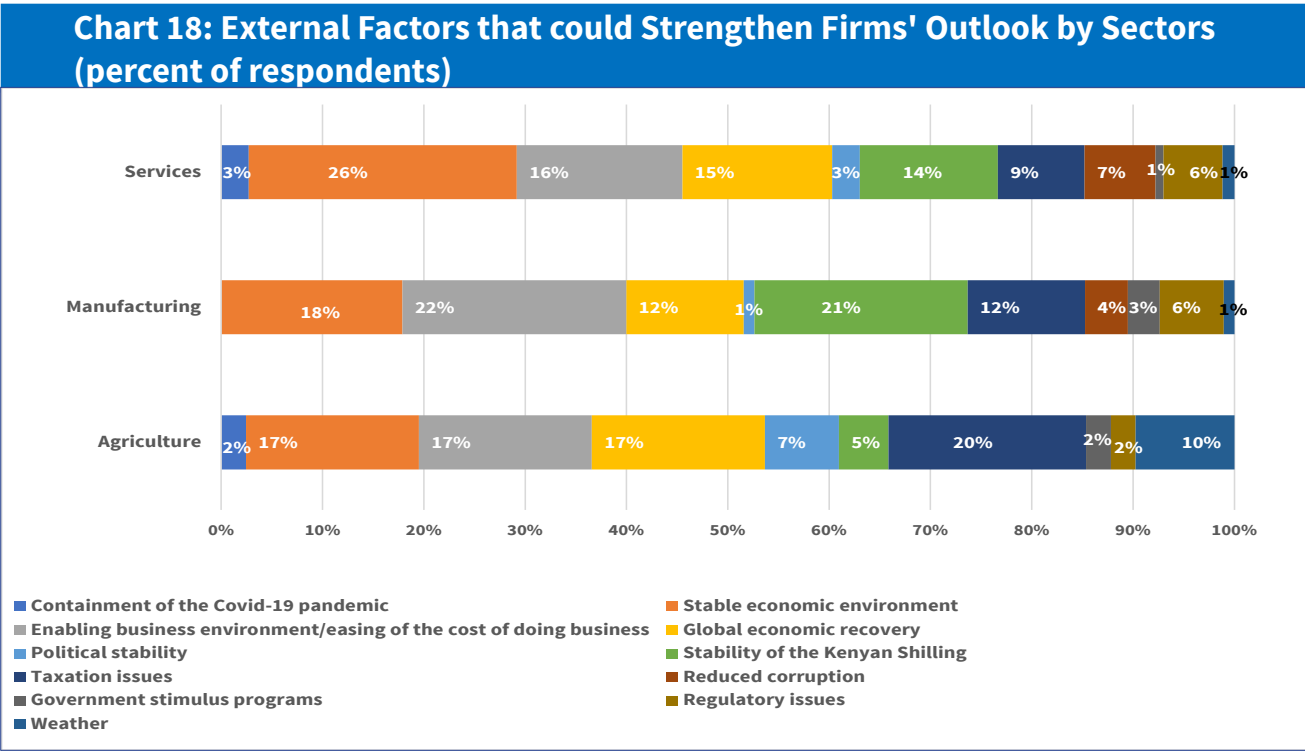
A sectoral analysis of the identified internal factors revealed that diversification of revenue streams and strong supply chains were other important factors for agriculture sector firms while strong supply chains and internal measures to contain costs were important factors for manufacturing sector firms. In the services sector, digitization and diversification of revenue streams were other important factors.

A stable economic environment, an enabling business environment and stability of the Kenyan Shilling were identified as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months (**Chart 17**).

Chart 17: External Factors that could Strengthen Firms' Outlook (percent of respondents)



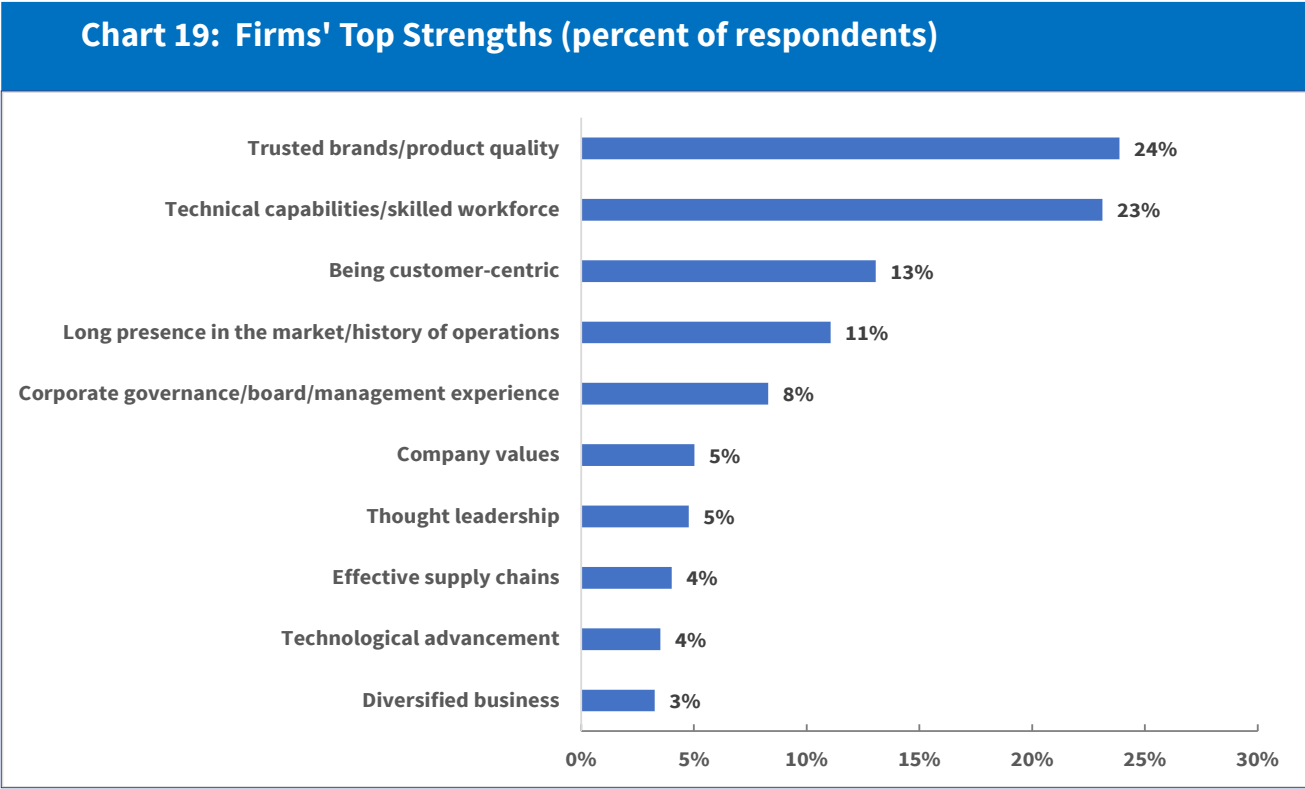
Besides the top three factors identified in **Chart 17**, taxation issues were an equally important factor for all sectors (**Chart 18**).



10. TOP COMPANY STRENGTHS

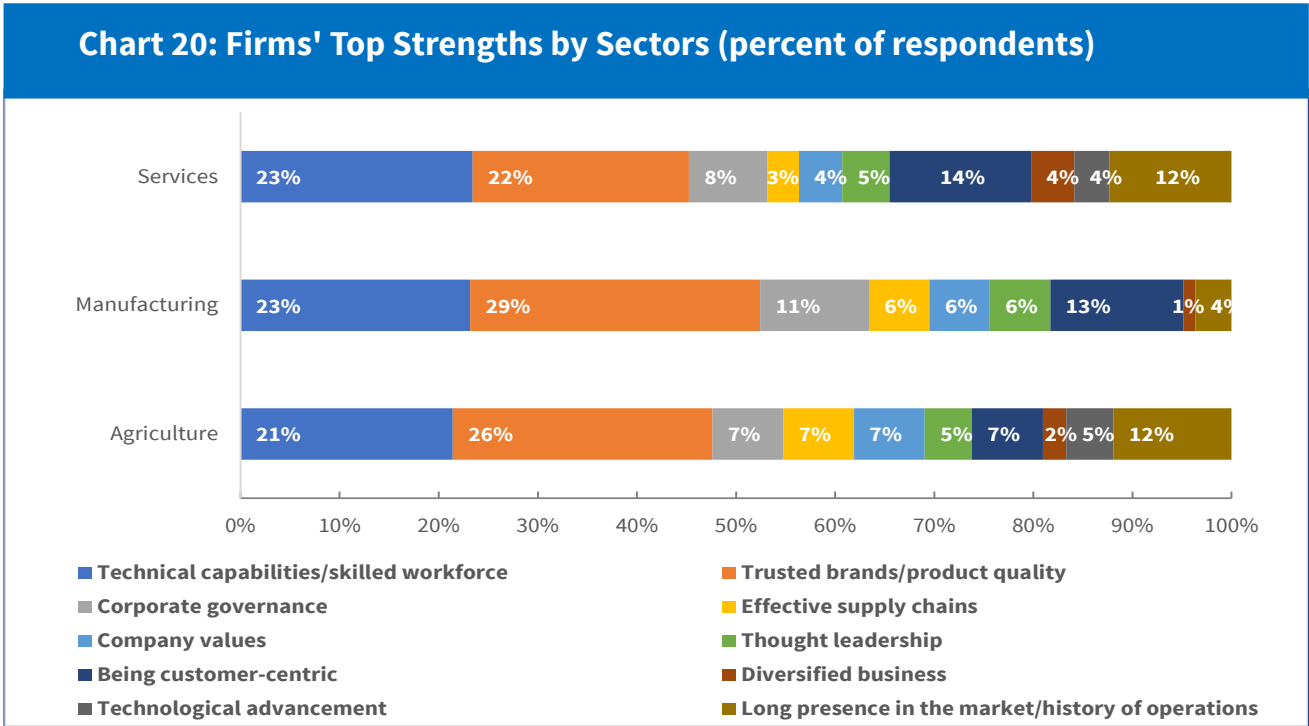
The Survey required respondents to indicate their company’s strengths. Firms reported trusted brands/ product quality, technical capabilities and customer

centricity as their top strengths. Equally important is their history/length of presence in the market (**Chart 19**).



At the sector level, besides technical capabilities and trusted brands/product quality, customer centricity and long presence in the market were significant factors for firms in all sectors. Effective supply

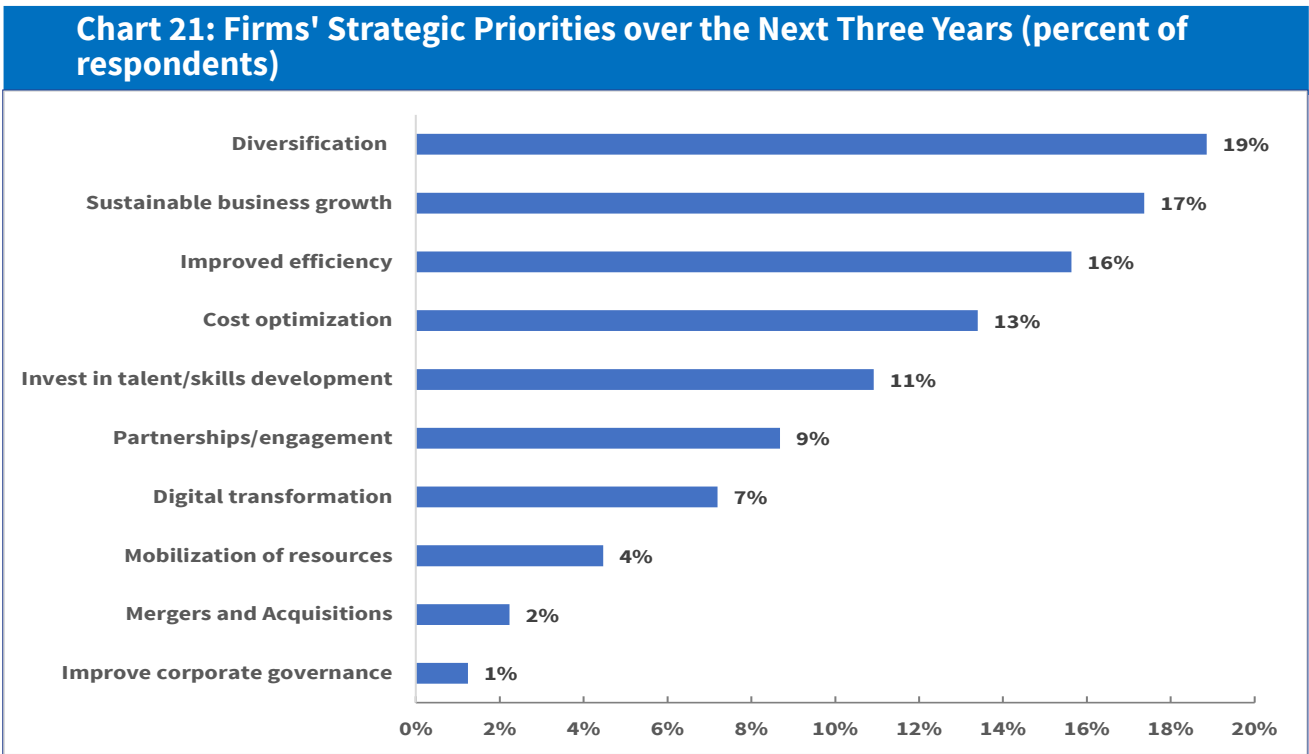
chains were also important for manufacturing and agriculture sector firms (**Chart 20**).



11. STRATEGIC PRIORITIES

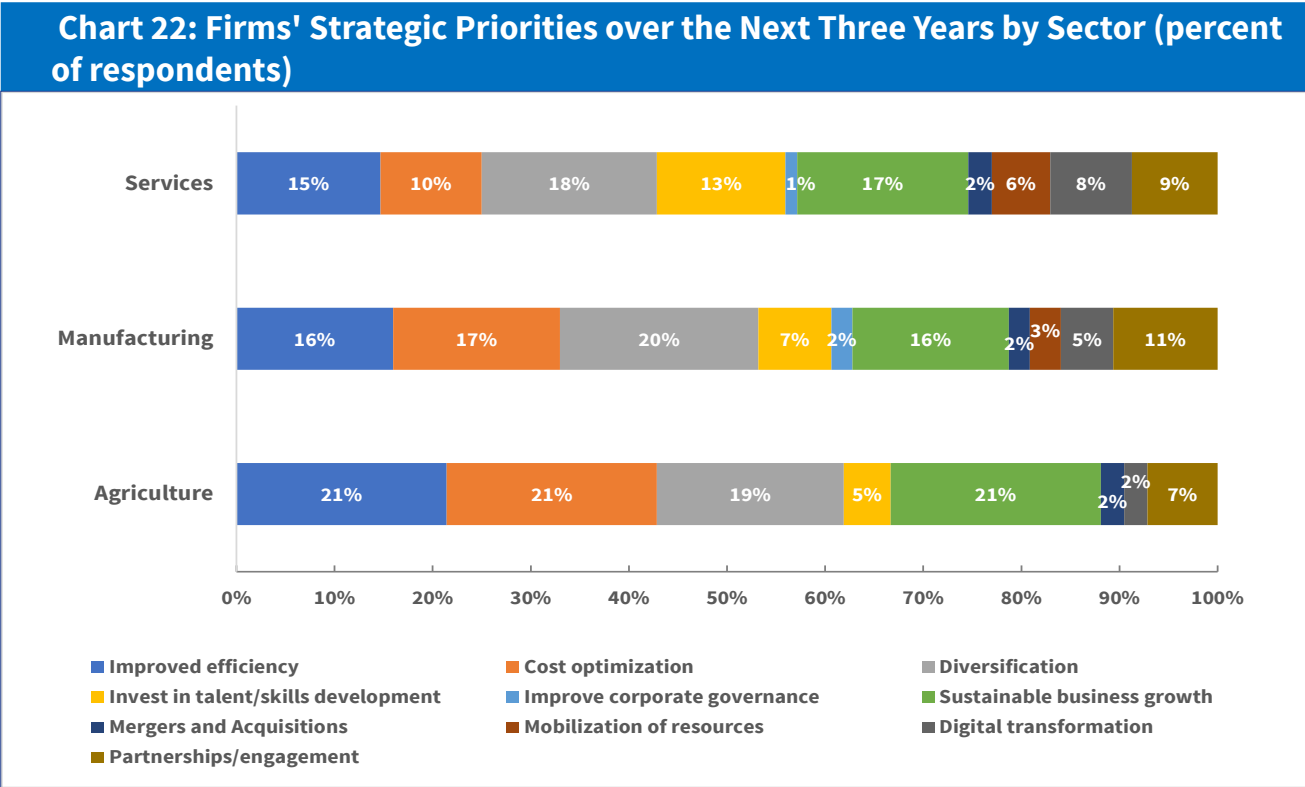
The Survey concluded by enquiring of respondents their strategic priorities over the next three years. The Survey revealed that firms plan to diversify, improve

efficiency and grow their businesses sustainably (**Chart 21**).



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 22**).



12. CONCLUSION

The January 2023 CEOs Survey revealed sustained business optimism about company and sectoral growth prospects. This optimism was mainly attributed to increased business activity during the festive season, government focus on specific sectors notably agriculture, building and construction, and ICT, as well as growth opportunities especially in the financial services and ICT sectors. However, respondents highlighted concerns over newly introduced taxes, high interest rates, rising cost of electricity, and the weakening Kenya Shilling.

Optimism regarding growth prospects for the Kenyan and global economy remained largely unchanged even though previous concerns such as global inflation, recession fears and the war in Ukraine have moderated.

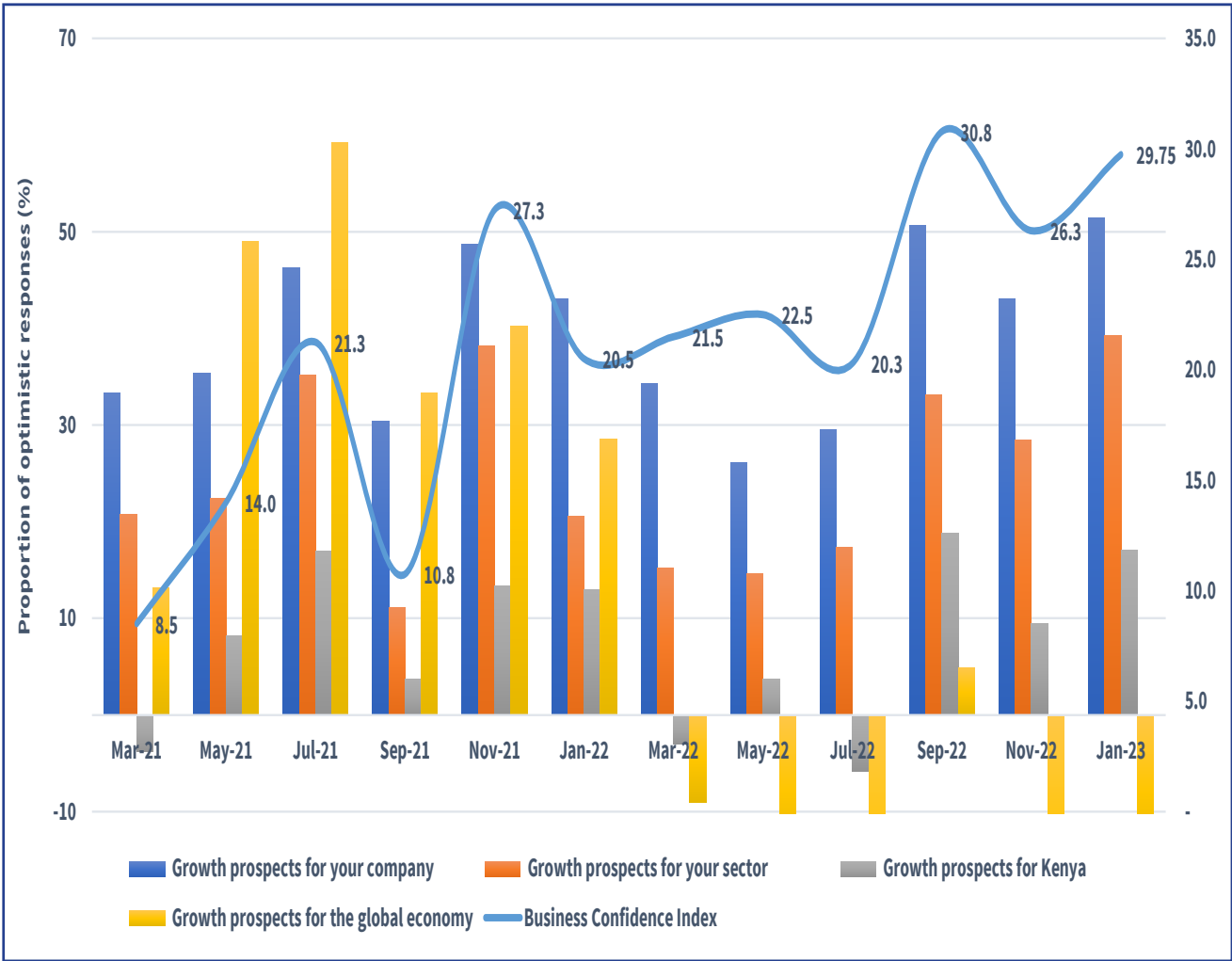
Business activity improved in 2022 Q4 compared to 2022 Q3. Besides seasonal factors, business activity was generally on a positive trajectory following conclusion of the elections, a factor which continued to the end of the year. Surveyed firms expect continued business improvement in 2023 Q1. Respondents expect that economic conditions

will remain largely unchanged thereby allowing for demand/orders, production volumes and sales to increase for majority of businesses.

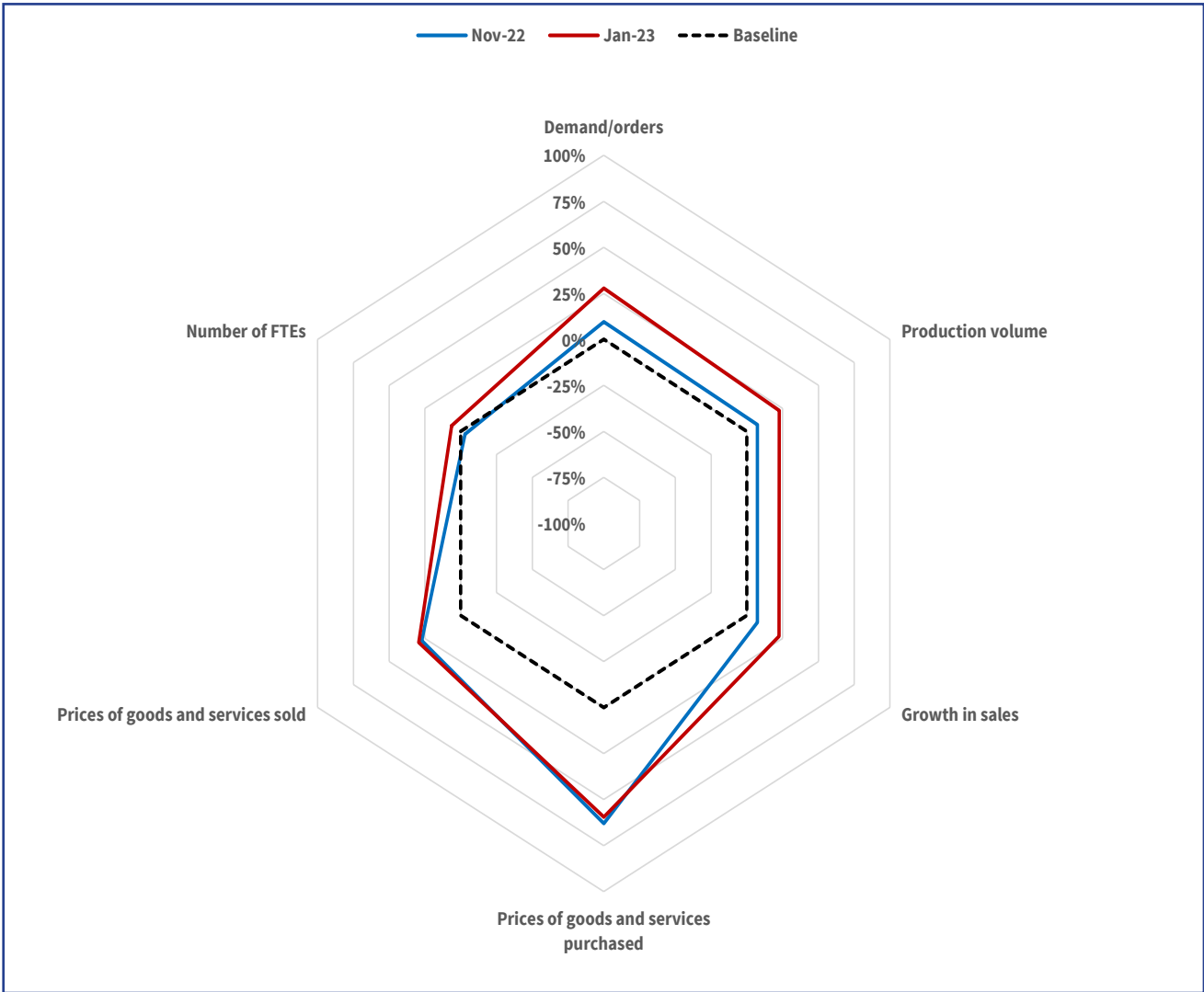
Customer centricity, expansion into new markets and talent management were identified as key factors that could drive firms' growth. In terms of constraining factors, respondents highlighted the economic environment (high inflation and the performance of the local currency) and the business environment (cost of doing business) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, recession fears and high energy prices as threats to their expansion. 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.

A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms' outlook in 2023.

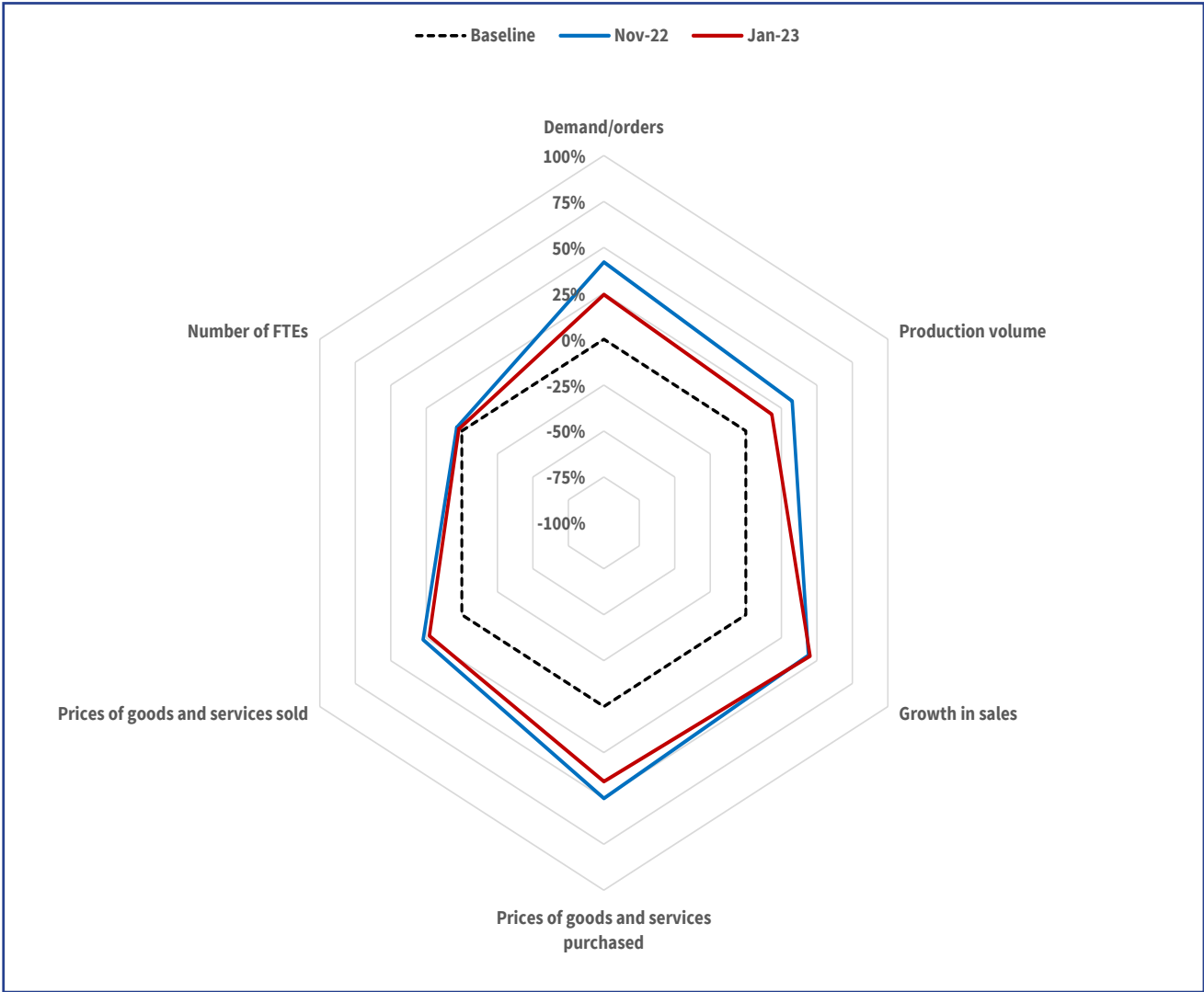
ANNEX 1: CBK BUSINESS CONFIDENCE INDEX



ANNEX 2: 2022 Q4 PURCHASE PRICES



ANNEX 3: EXPECTATIONS OF 2023 Q1 BUSINESS ACTIVITY





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