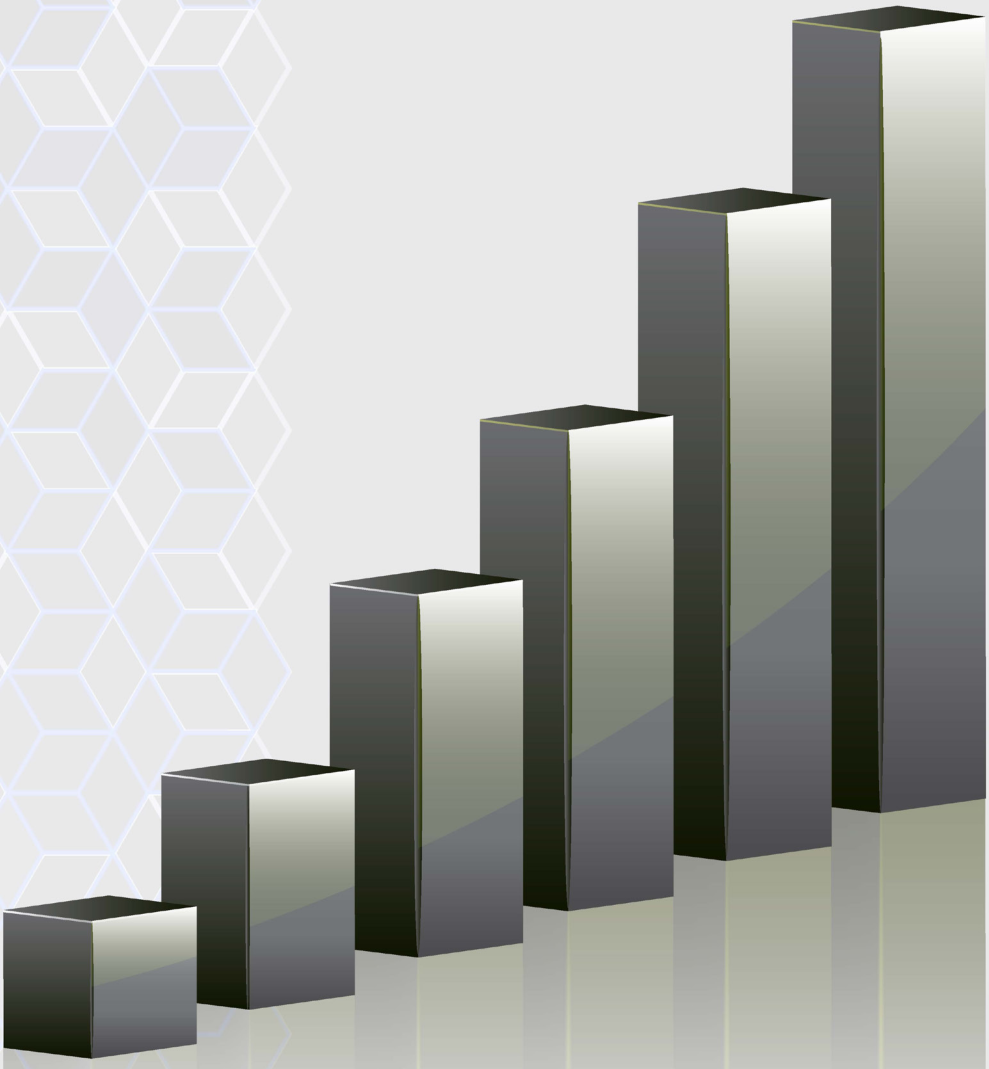
Central Bank of Kenya

Chief Executive Officers'(CEOs) Survey

November 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 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 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 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 November 6 and 17, 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 2023 quarter four (Q4) compared to 2023 quarter three (Q3), and their expectations for economic activity in the first quarter of 2024 (Q1). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (November 2023 – October 2024), as well as the strategic directions and solutions to address their key constraining factors over the medium term (November 2023 – October 2025). 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 (18 percent), professional services (15 percent), financial services (14 percent), healthcare and pharmaceuticals (13 per cent), agriculture (7 percent), tourism, hotels and restaurants (8 percent), ICT and telecommunications (7 percent), transport and storage (4 percent), real estate (3 percent) and mining and energy (3 percent). Other sectors such as wholesale and retail trade, education, security, building and construction, and media accounted for two percent each or less.

Majority of the respondents (66 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses and publicly listed domestic companies. Forty three percent of the respondents had a turnover of over Ksh 1 billion in 2022. In terms of employment, 40 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:

- Business optimism for company and sectoral growth prospects remained subdued on the back of a continued weak Kenya Shilling, increased fuel and electricity prices and higher taxes, and reduced consumer demand.
- However, respondents remained optimistic that improved agricultural output coupled with sector-specific opportunities could support growth.
- Optimism regarding growth prospects for the Kenyan economy weakened with respondents citing input cost constraints.
- Optimism for global growth remained largely the same, as respondents highlighted risks to global growth which have remained unchanged, given the continuing geopolitical tensions and a modest global economic outlook.

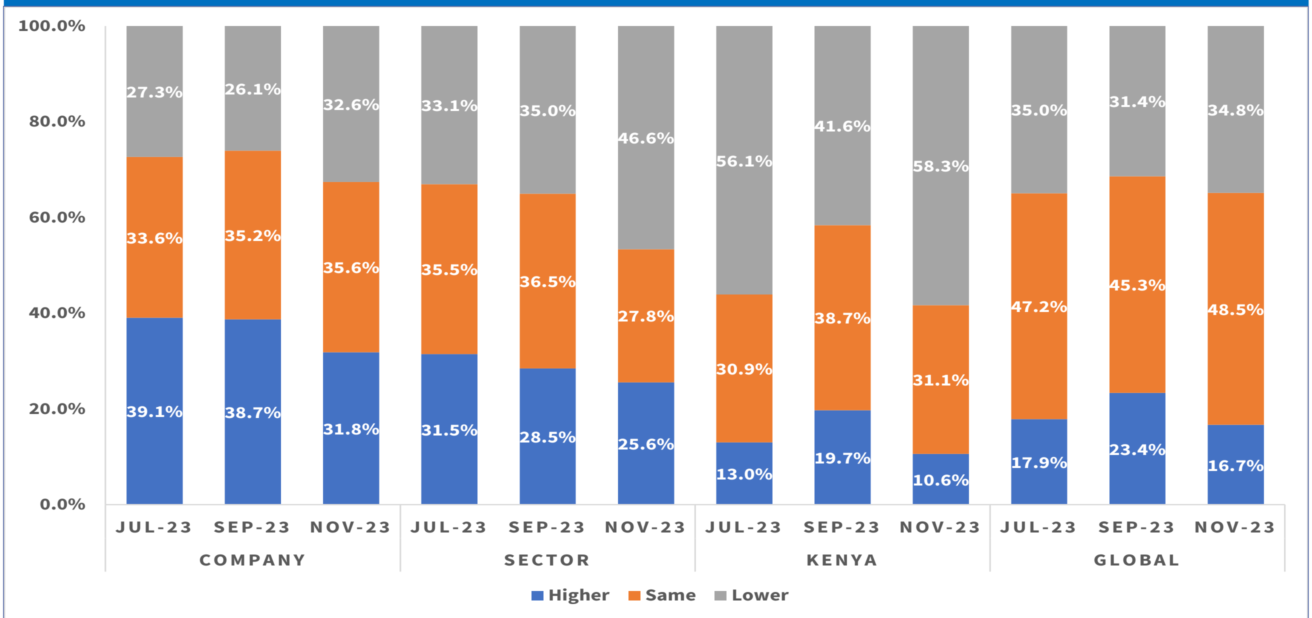
- Majority of respondents reported lower business activity in 2023 Q4 compared to 2023 Q3 due to high input costs and reduced consumer demand. Nevertheless, increased business activity was reported for firms in tourism due to seasonal factors, with financial and professional services firms reporting increased demand for their services.
- Firms expect business activity in 2024 Q1 to remain largely at the same level. Seasonal factors are expected to support firms in financial services, transport and storage and professional services sectors.
- Expansion into new markets, customer centricity and talent management were identified as the key drivers of firms' growth.
- Increased taxation, the business environment (cost of doing business) and the economic environment (high inflation and the weakening Shilling) continue to be identified as domestic factors that could constrain firms' growth in the near term. Externally, firms highlighted energy prices, macroeconomic volatility and global inflation, as threats to their expansion. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, 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. Business optimism for company and sectoral growth prospects remained subdued on the back of a continued weak Kenya Shilling, increased fuel and electricity prices and higher taxes, and reduced consumer demand. However, respondents remained optimistic that improved agricultural output coupled with sector-specific opportunities could support growth **(Chart 1)**. Firms in the healthcare/pharmaceutical industries expect to benefit from the proposed Universal Health Coverage (UHC) while tourism sector firms are buoyed by continued post-COVID-19 recovery. Firms in financial and professional services expect demand for their services to be driven by increased opportunities in the region.

Optimism regarding growth prospects for the Kenyan economy weakened with respondents citing higher input costs, notably electricity and fuel costs, high taxation, weakening shilling, and delayed payment of government suppliers as factors that could stifle growth.

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



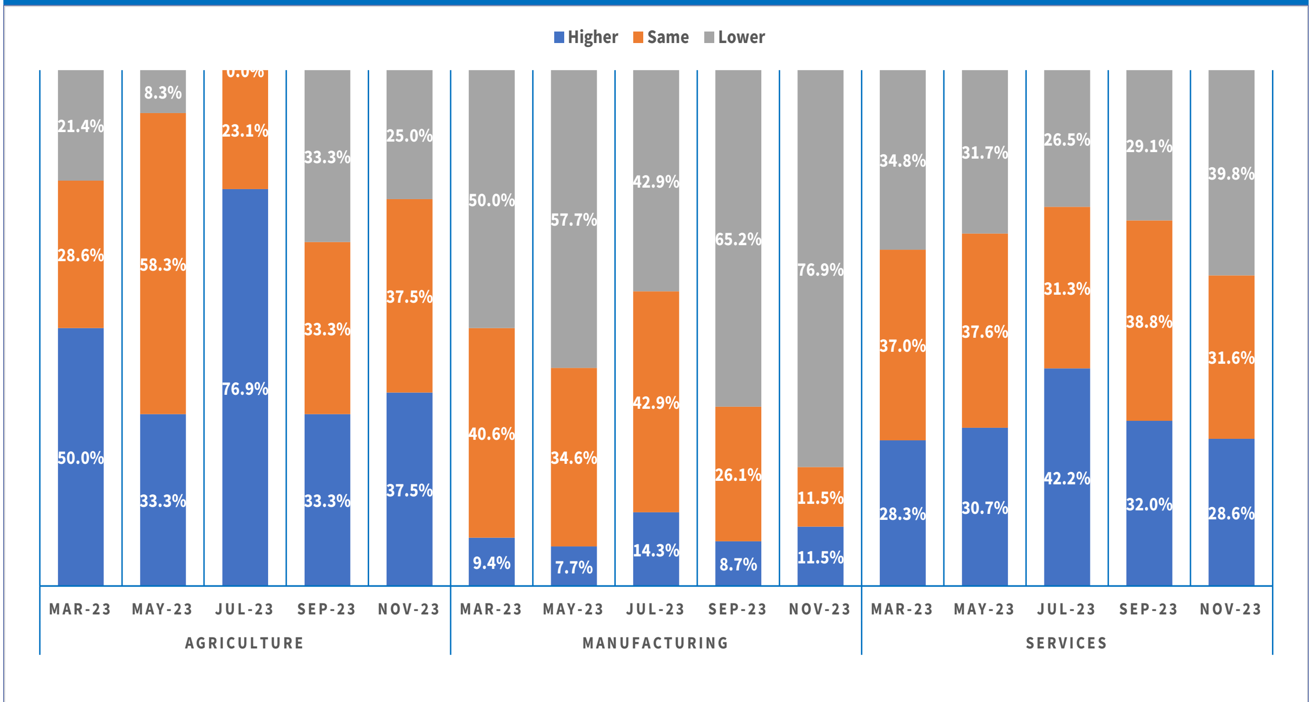
Optimism for global growth remained largely the same, as respondents highlighted risks to global growth which have remained unchanged, given the continuing geopolitical tensions and a modest global economic outlook.

The agriculture sector continued to report higher optimism for growth prospects of their companies and sectors in the latest Survey compared to other sectors **(Chart 2)**. Respondents attributed their optimism to the anticipated increased agricultural production, in view of favourable weather conditions. Nevertheless, respondents decried the high cost of doing business.

Majority of respondents in the manufacturing sector, reported lower or the same growth prospects for their company and sector over the next 12 months. Respondents reported that currency weakness, a general slowdown in economic activity and sustained high input costs would further reduce disposable incomes thereby hampering growth. Nevertheless, respondents noted that improved weather conditions were expected to support sector performance.

In the services sector, majority of the respondents reported higher or the same company and sectoral growth prospects over the next 12 months. Respondents noted that firms had crafted strategies and policies to support local growth. Further, it was reported that trade within markets in Africa was increasing thereby creating more opportunities.

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



6. BUSINESS ACTIVITY IN 2023 Q4 COMPARED TO 2023 Q3

The Survey sought CEOs perceptions on business activity in the fourth quarter of 2023 compared to the third quarter of 2023. Majority of respondents reported lower business activity **(Chart 3)**. Across all sectors, firms reported high input costs and reduced consumer demand as factors impacting demand/ orders, production volumes and sales.

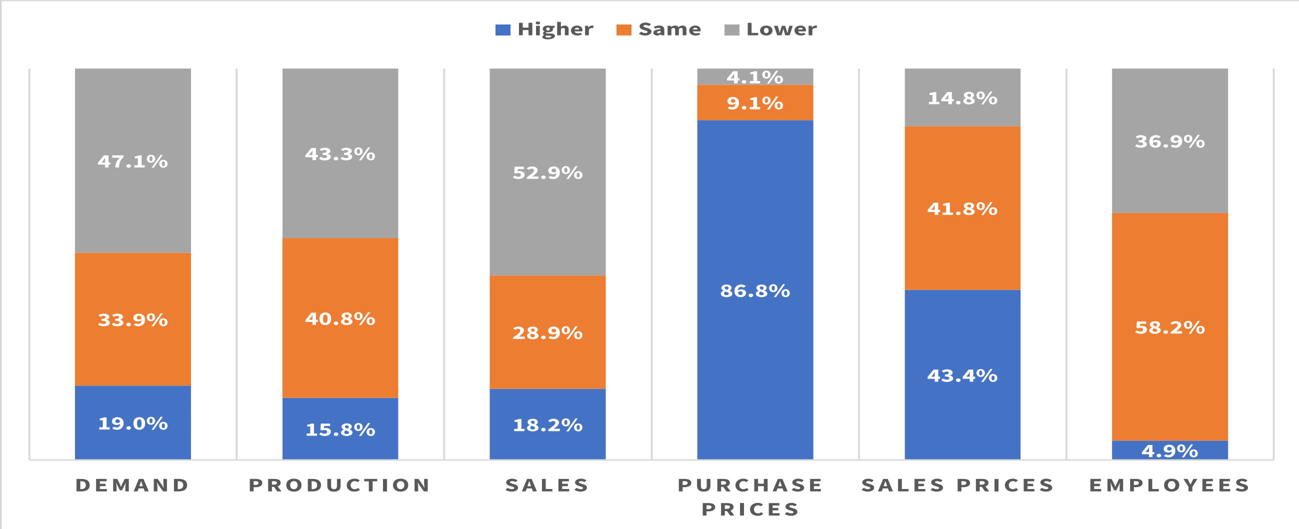
Firms in the agriculture sector reported a slowdown in the market, given declining consumer purchasing power and increased cost of production. High fuel prices were reported to have driven fertilizer prices and transport costs up, while high cost of financing was further putting pressure on production costs. Additionally, demand in key markets, notably in the EU and China had fallen. Further, imposition of duty on Kenyan avocados entering China and India was likely to reduce export earnings.

Nevertheless, respondents noted that the festive season would boost demand in the remaining period of the quarter.

Manufacturing sector firms reported reduced demand for products, hence reduced production volumes and more idle capacity than anticipated. Demand for some products were reported to be at their lowest level since the beginning of the year. Nevertheless, some firms reported improved sales albeit at higher cost and prices.

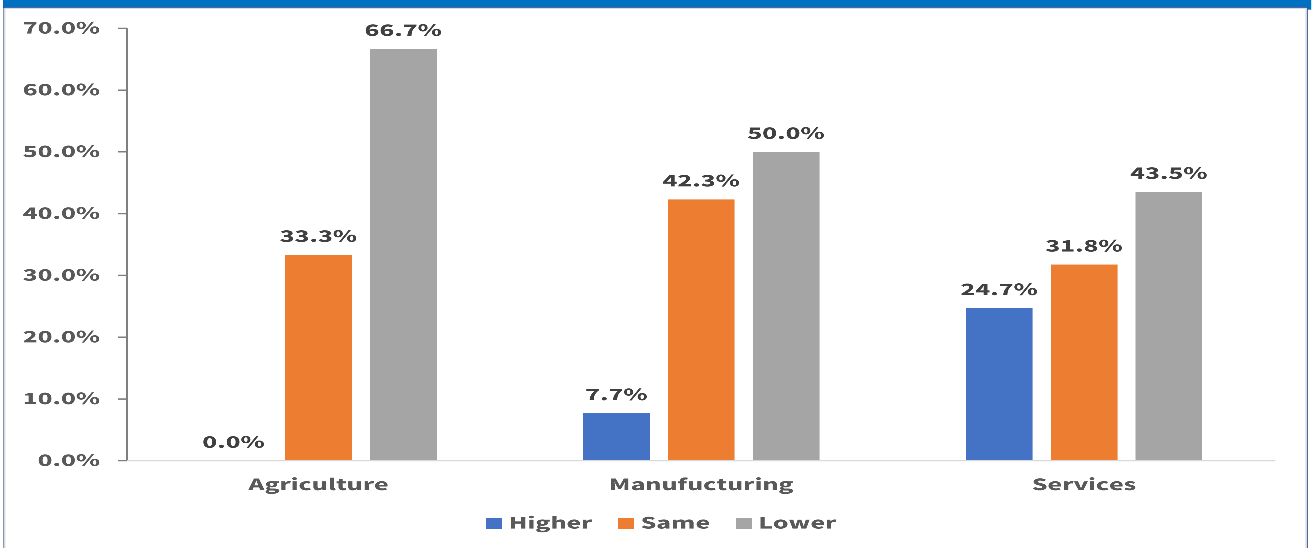
In the services sector, firms reported that business activity remained low, indicative of erosion of purchasing power. High input costs, reflecting higher taxes and a depreciating currency, continue to persist resulting in a slowdown of volumes and sales. Nonetheless, firms in the tourism sector reported that seasonal factors had slightly lifted business volumes even though this was tempered by high costs. Financial and professional services firms also reporting increased demand for their services.

Chart 3: Business Activity in 2023 Q4 Compared to 2023 Q3 (percent of respondents)



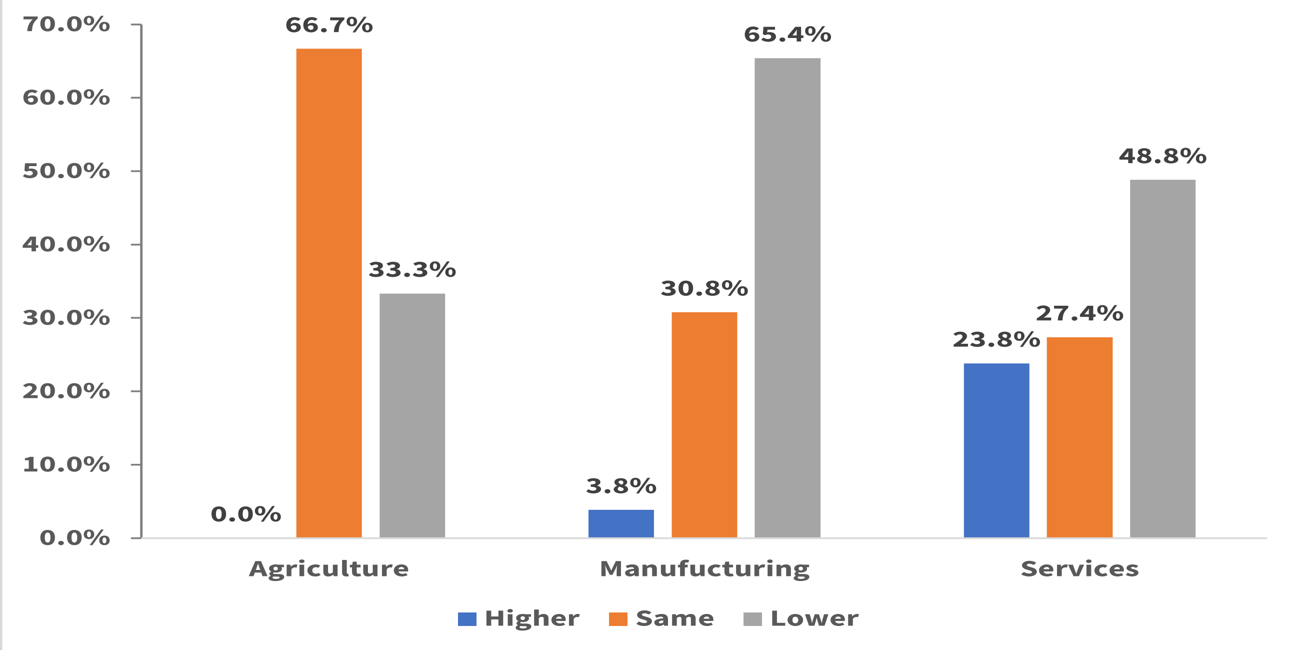
In terms of sectoral orders in the fourth quarter of 2023, majority of firms in all sectors reported lower demand/ orders **(Chart 4)**.

Chart 4: Demand/Orders in 2023 Q4 Relative to 2023 Q3 by Sectors (percent of respondents)



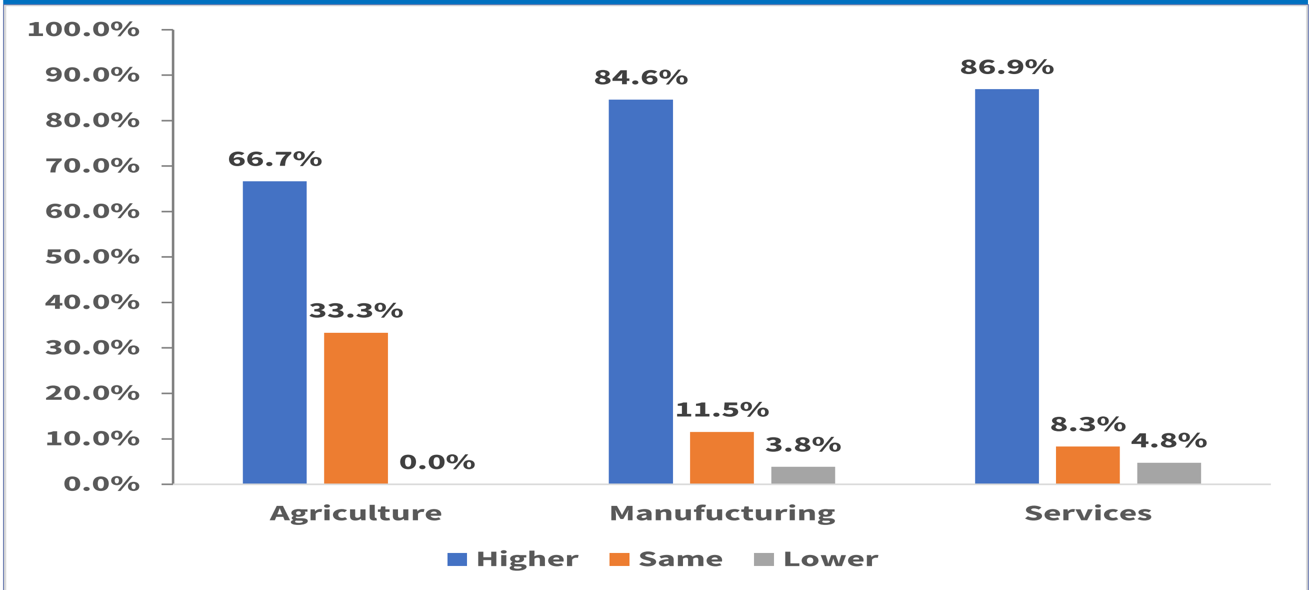
Majority of agriculture sector firms reported that sales growth largely remained the same **(Chart 5)**.

Chart 5: Sales Growth in 2023 Q4 relative to 2023 Q3 by Sectors (percent of respondents)



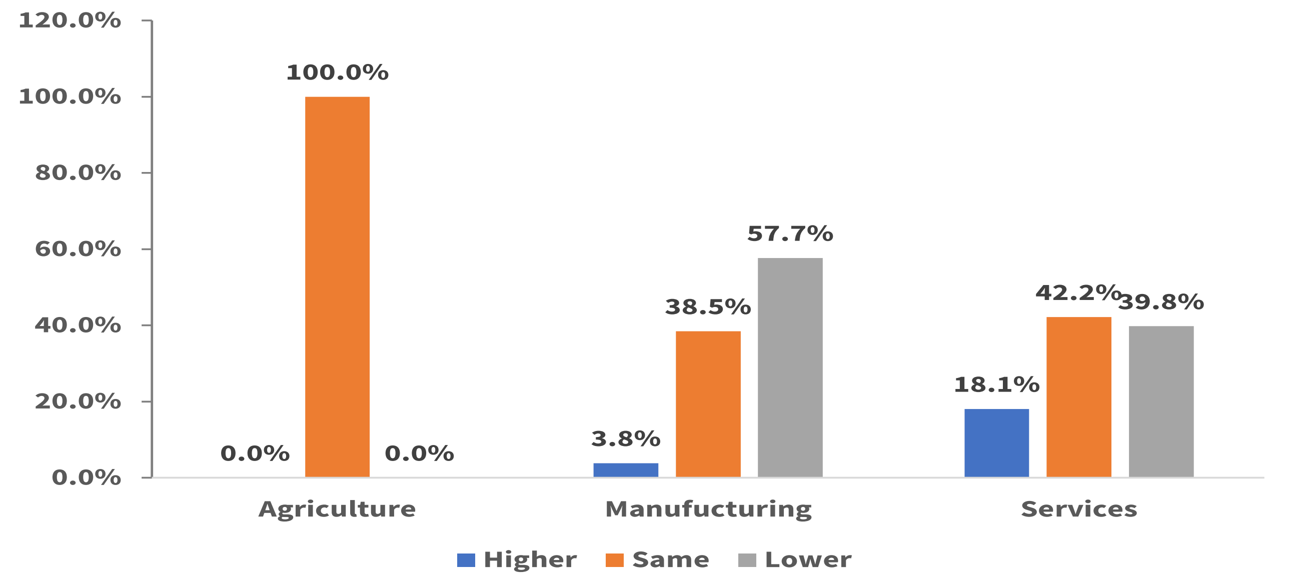
All sectors reported high input costs, with the services sector reporting the highest increase in the input prices **(Chart 6)**.

Chart 6: Purchase Prices in 2023 Q4 Compared to 2023 Q3 by Sectors (percent of respondents)



Production volumes remained largely the same for majority of respondents in the agriculture sector, as the harvest season continues. Similarly, for majority of firms in the services sectors, production volumes remained the same due to reduced consumer demand. Manufacturing sector firms reported the lowest production volumes due to challenges associated with low consumer demand and erosion of margins that is reported to have dampened both volume and price of goods **(Chart 7)**.

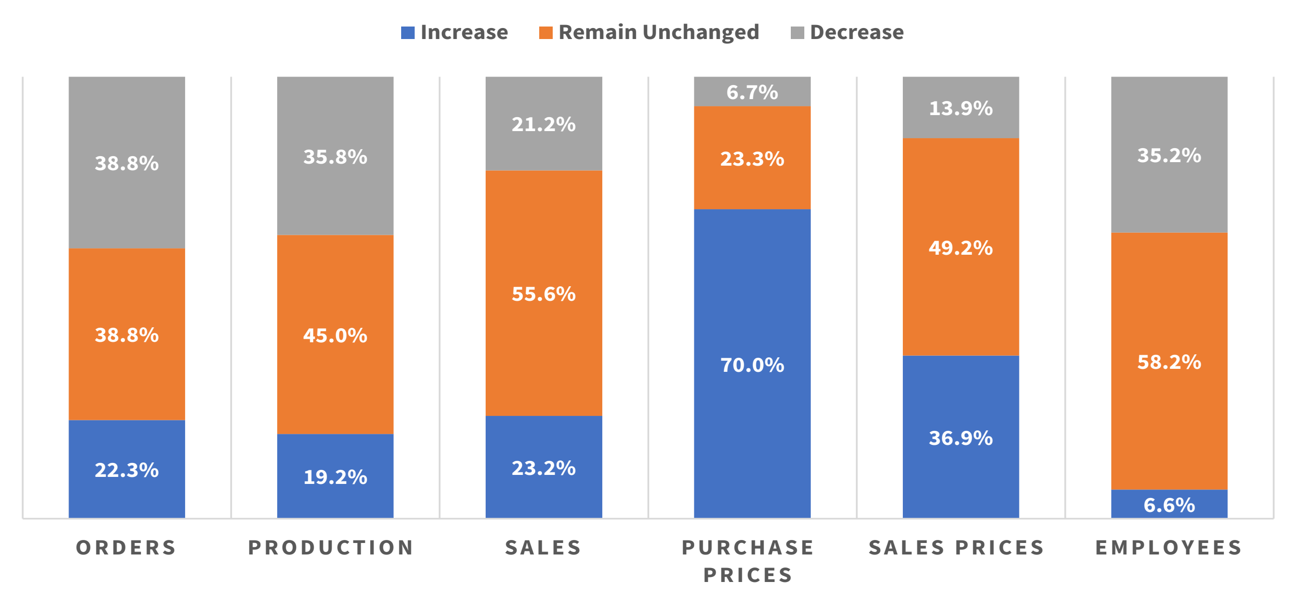
Chart 7: Production Volumes in 2023 Q4 Compared to 2023 Q3 by Sectors (percent of respondents)



7. OUTLOOK FOR BUSINESS ACTIVITY IN 2024 Q1 COMPARED TO 2023 Q4

The Survey sought CEOs expectations of business activity in the first quarter of 2024 relative to the fourth quarter of 2023. The CEOs reported that business activity is expected to remain muted in Q1 with majority of respondents reporting lower or unchanged volumes of business activity **(Chart 8)**.

Chart 8: Outlook on Business Activity in 2024 Q1 compared to 2023 Q4 (percent of respondents)



Firms in the agriculture sector expect that high fuel prices could persist into the first quarter of 2024, hence continued high input costs. Consequently, firms are likely to scale back in order to keep overhead costs in check. Further, the enhanced El Niño rainfall could prevent plantings of crops that would ordinarily be harvested in the first quarter.

Similar sentiments were expressed by businesses in the manufacturing sector. Respondents expect that continued increases in fuel prices will keep production costs elevated, thereby continuing to exert pressure on sales prices. The attendant decline in sales, exacerbated by low consumer purchasing power, could impact employment numbers.

In the services sector, firms expect business activity to remain largely at the same level due to market fundamentals remaining the same. Firms in the tourism sector, expect the sector to fully recover in 2024 from the effects of the COVDI-19 pandemic. Purchase prices are expected to remain elevated for firms across all sectors **(Chart 9)**.

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 10)**. Firms reported that capacity was still significantly higher than demand hence abundant room for expansion.

Firms which reported possible difficulty in expanding their operations cited difficulties in securing finances for working capital and high overhead costs. Other reasons cited included the weaker Shilling and subdued demand.

Chart 9: Expectations of Purchase Prices in 2024 Q1

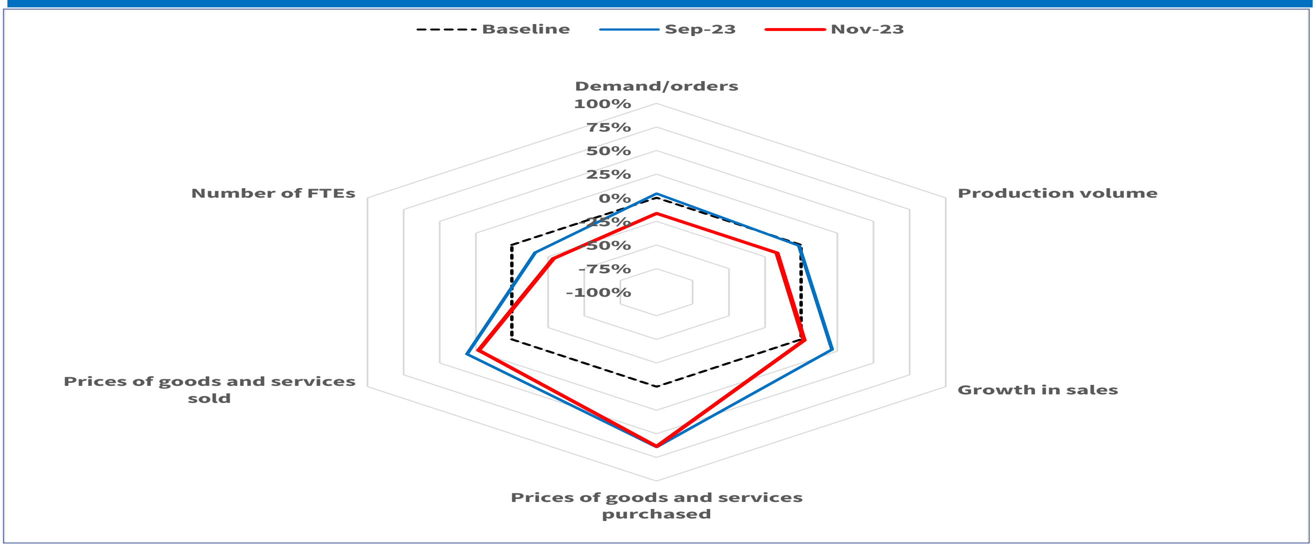
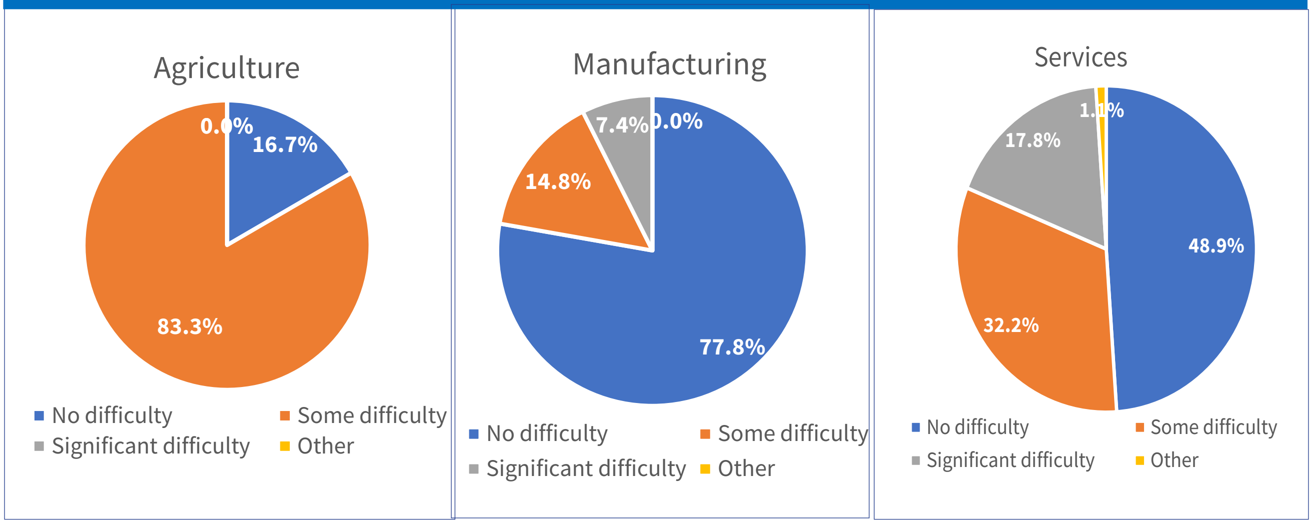


Chart 10: Potential Level of Difficulty in Meeting Increased Demand or Sales (percent of respondents)

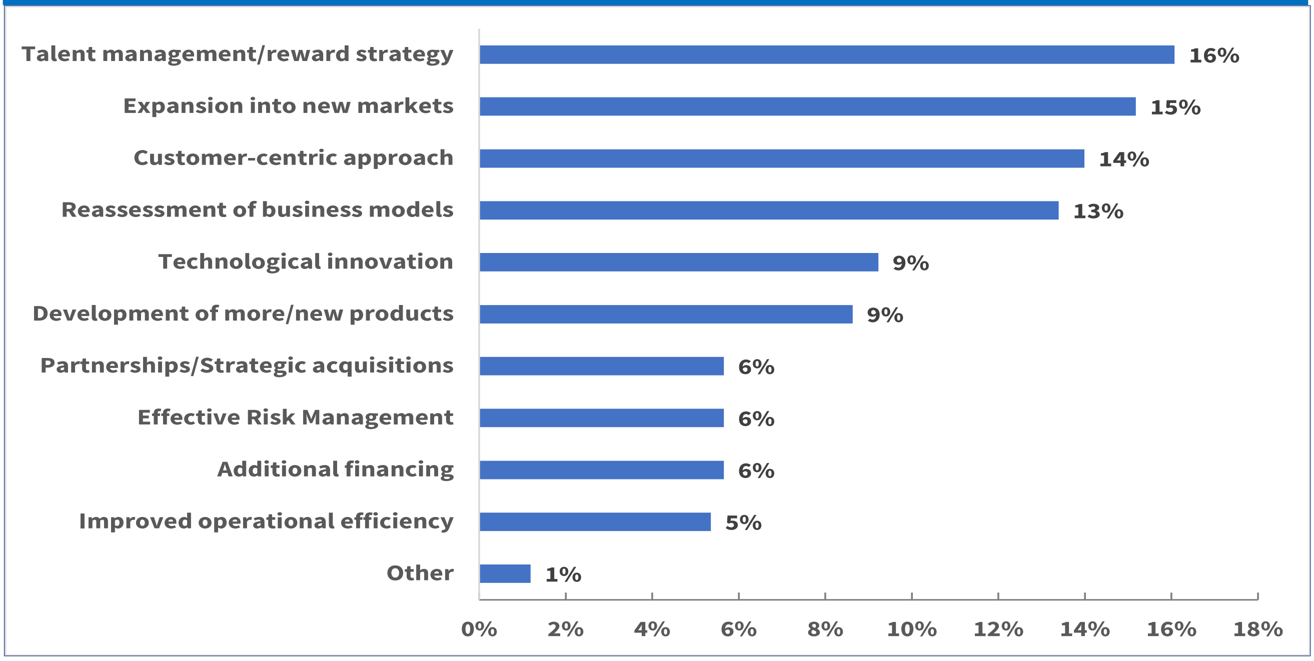


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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.

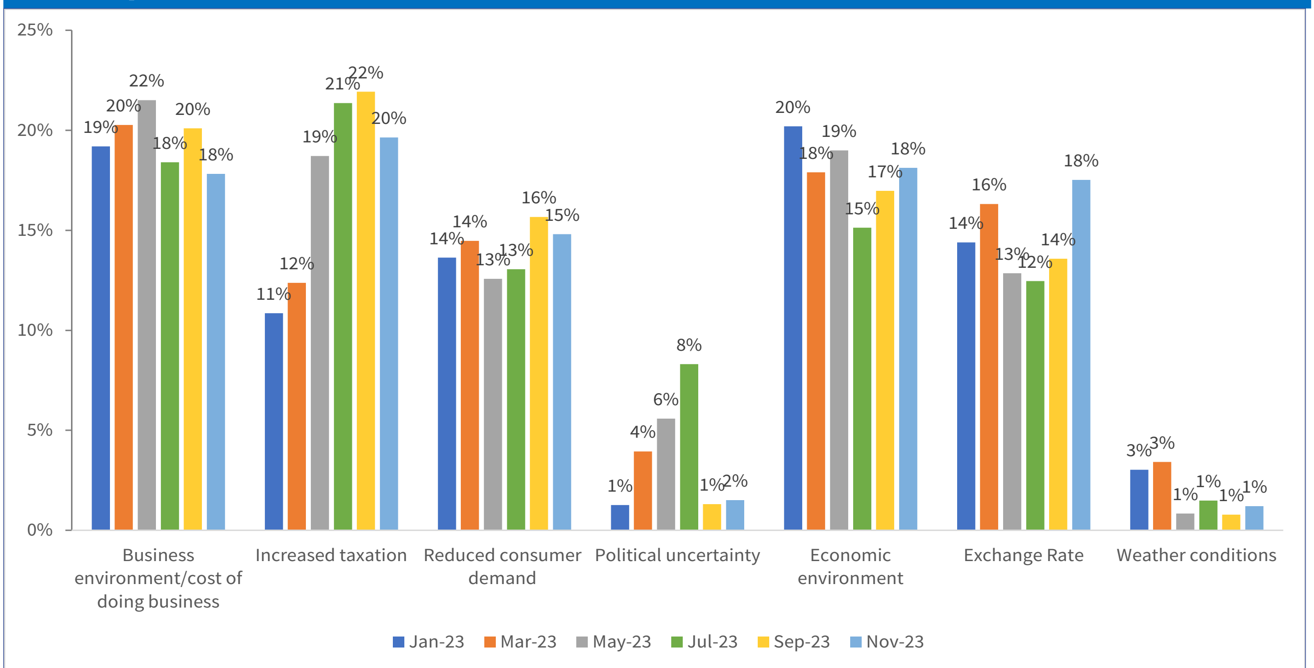
The results show that talent management, expansion into new markets, and customer centricity are the key drivers of firms' growth over the next one year **(Chart 11)**.

Chart 11: Drivers of Firm Expansion (percent of respondents)



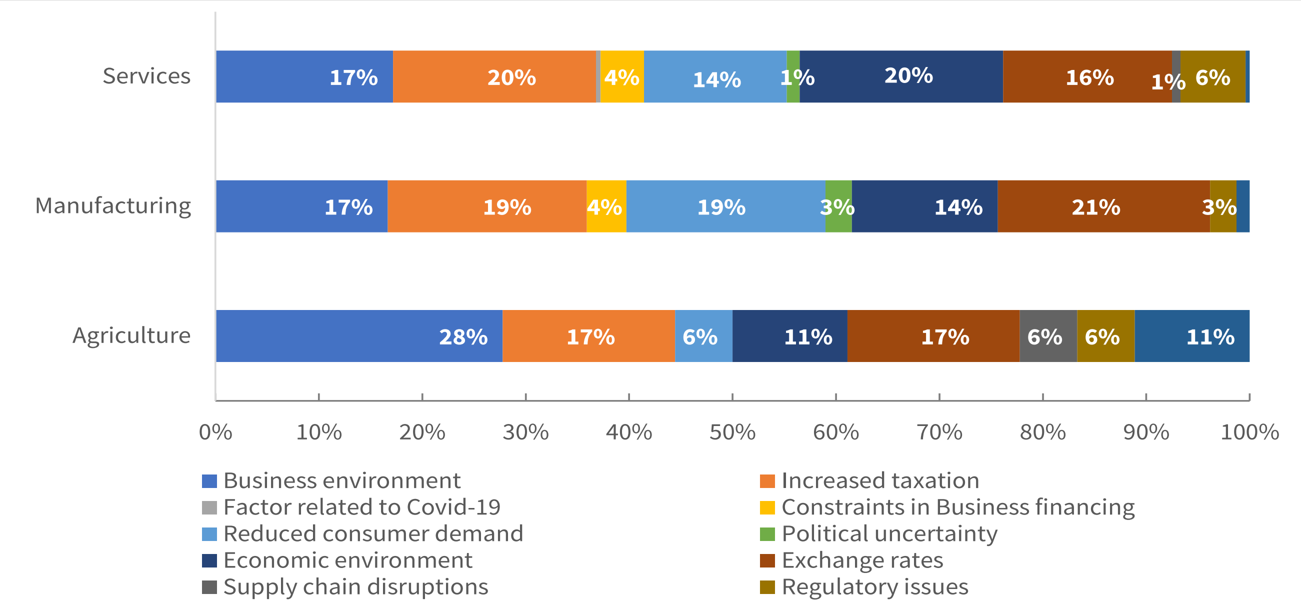
In terms of domestic factors that could constrain their growth, respondents continued to highlight increased taxation, the exchange rate, the business environment (cost of doing business) and the economic environment (high inflation)**(Chart 12)**.

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



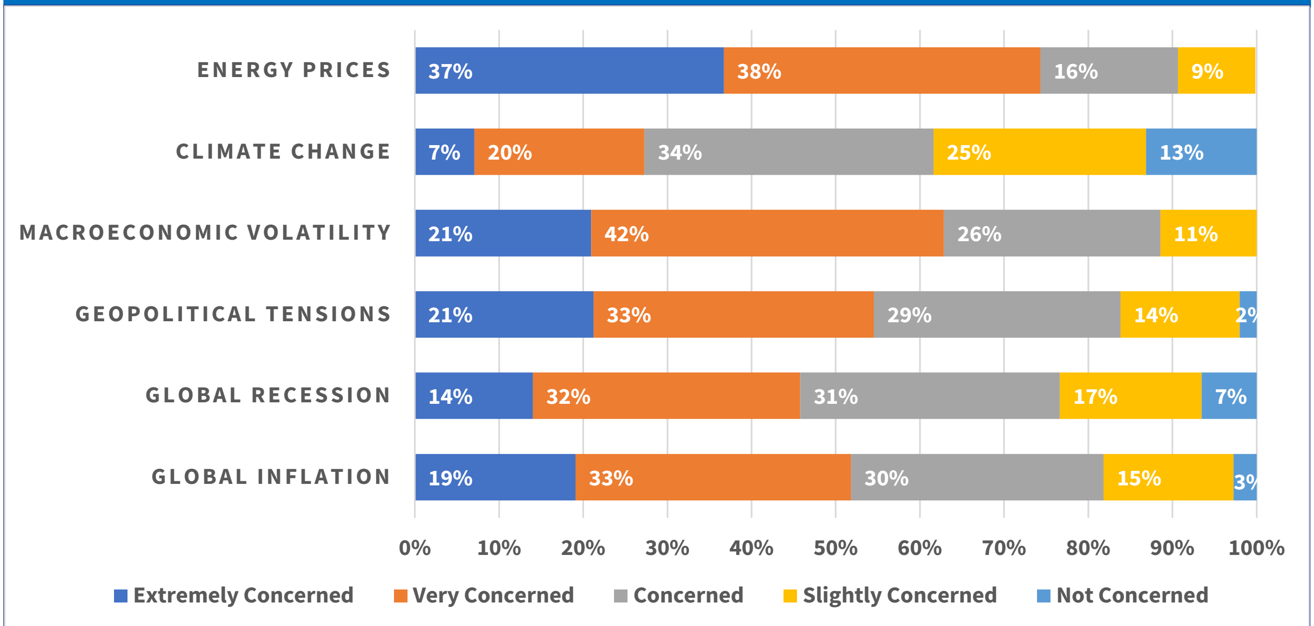
Increased taxation and the exchange rate were of greater concern for firms in the manufacturing sector. Firms in the services sector cited increased taxation and economic environment as most constraining to their expansion. Firms in the agriculture sector on the other hand were most concerned about the business environment, with increased taxation and the exchange rate ranking equally **(Chart 13)**.

Chart 13: Domestic Factors Constraining Firms' Expansion by Sectors (percent of respondents)



The Survey also sought to establish the top external (non-domestic) threats to business expansion and growth. Respondents were most concerned about energy prices, macroeconomic volatility and global inflation **(Chart 14)**. Agriculture sector firms were most concerned about climate change and energy prices while manufacturing and services sector firms were most concerned about energy prices and macroeconomic volatility.

Chart 14: External Threats Impacting Firms' Expansion (percent of respondents)

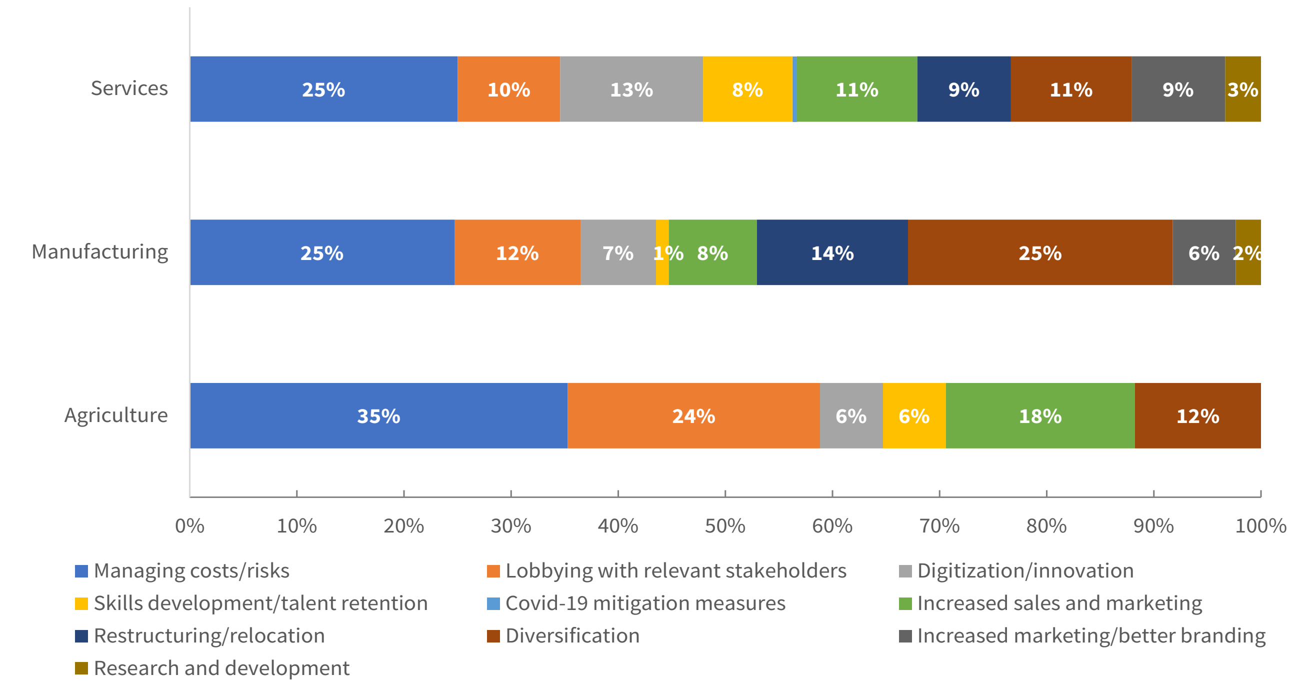


To mitigate the factors constraining growth/expansion, firms proposed various solutions including management of costs and risks, increased sales and marketing, digitization of their operations, and diversification **(Chart 15)**.

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

Other important factors for respective sectors were lobbying with relevant stakeholders (services and agriculture sector firms) and restructuring and/or relocating for manufacturing sector firms **(Chart 16)**.

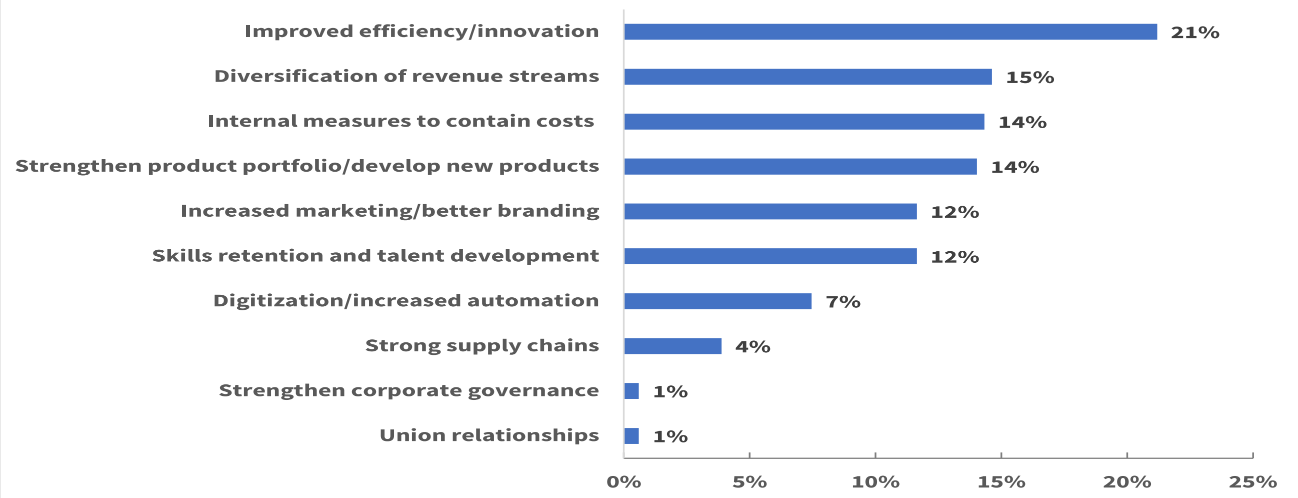
Chart 16: Firms' Proposed Solutions to Factors Constraining Growth by Sector (percent of respondents)



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 as the main internal factors that could strengthen outlook across all sectors. Internal measures to control cost as well as strengthening product portfolio also continue to be important internal factors to strengthen outlook for majority of firms **(Chart 17)**.

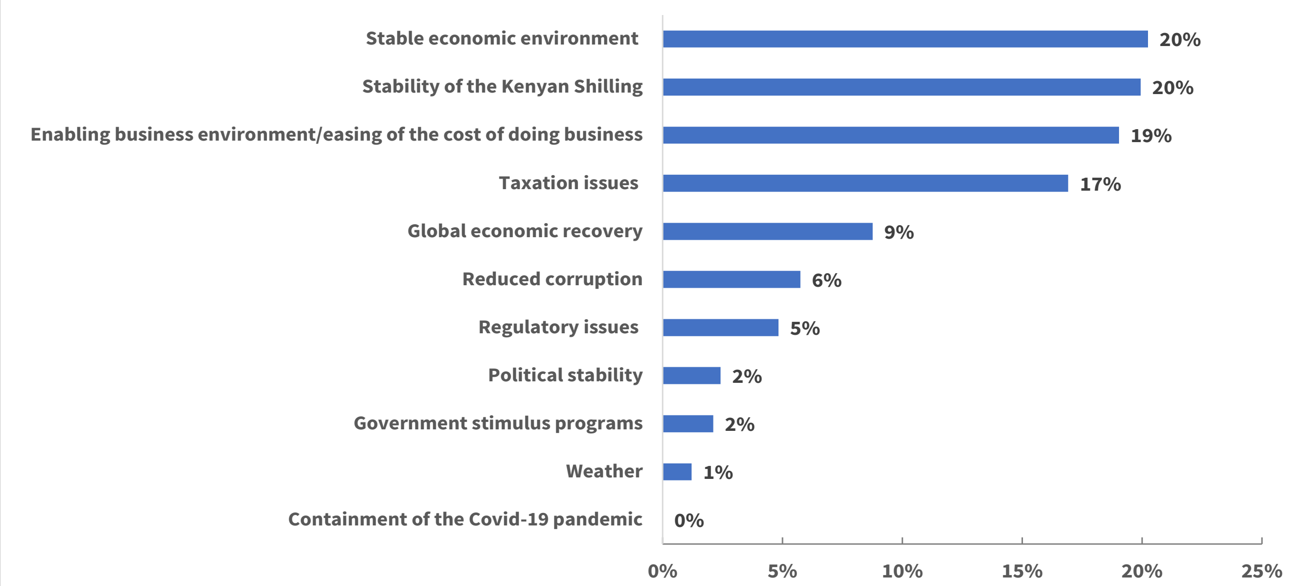
Chart 17: Internal Factors that could Strengthen Firms' Outlook (percent of respondents)



A sectoral analysis of the identified internal factors revealed that diversification of revenue streams was another important factor for all sectors.

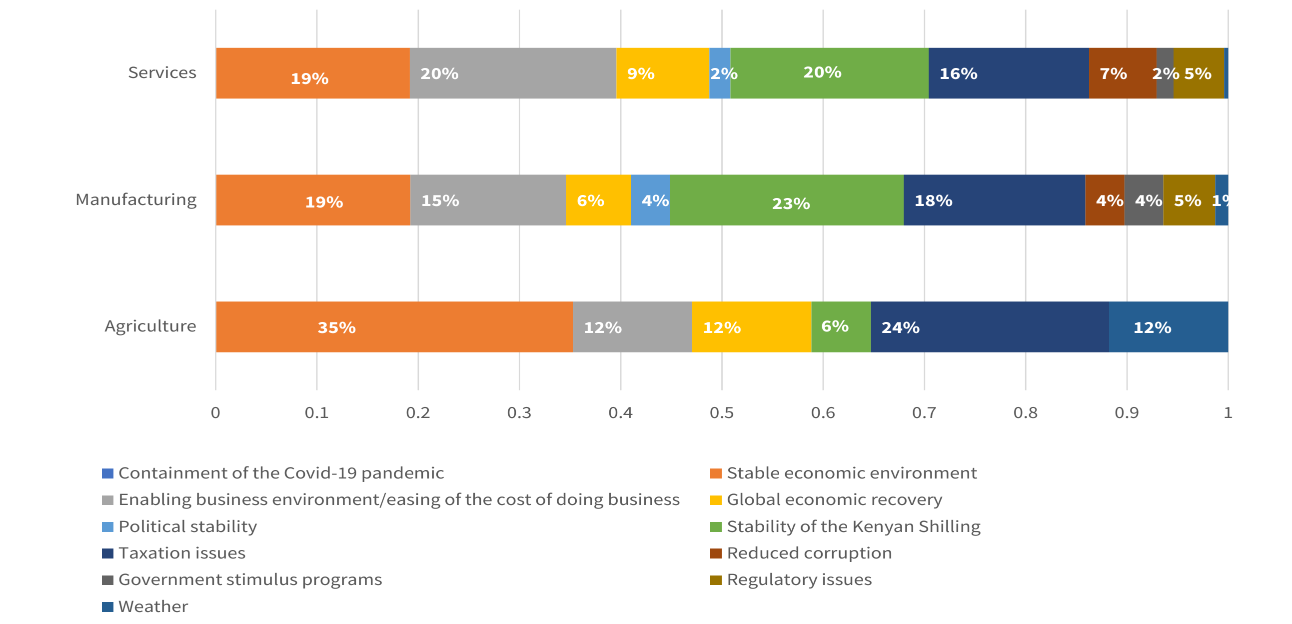
Firms continued to identify a stable economic environment, stability of the Kenyan Shilling and an enabling business environment as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months **(Chart 18)**.

Chart 18: External Factors that could Strengthen Firms' Outlook (percent of respondents)



Besides the top three factors identified in **Chart 18**, taxation issues and global economic recovery were equally important factors for all sectors, with weather being an important factor for agriculture sector firms **(Chart 19)**.

Chart 19: External Factors that could Strengthen Firms' Outlook by Sectors (percent of respondents)



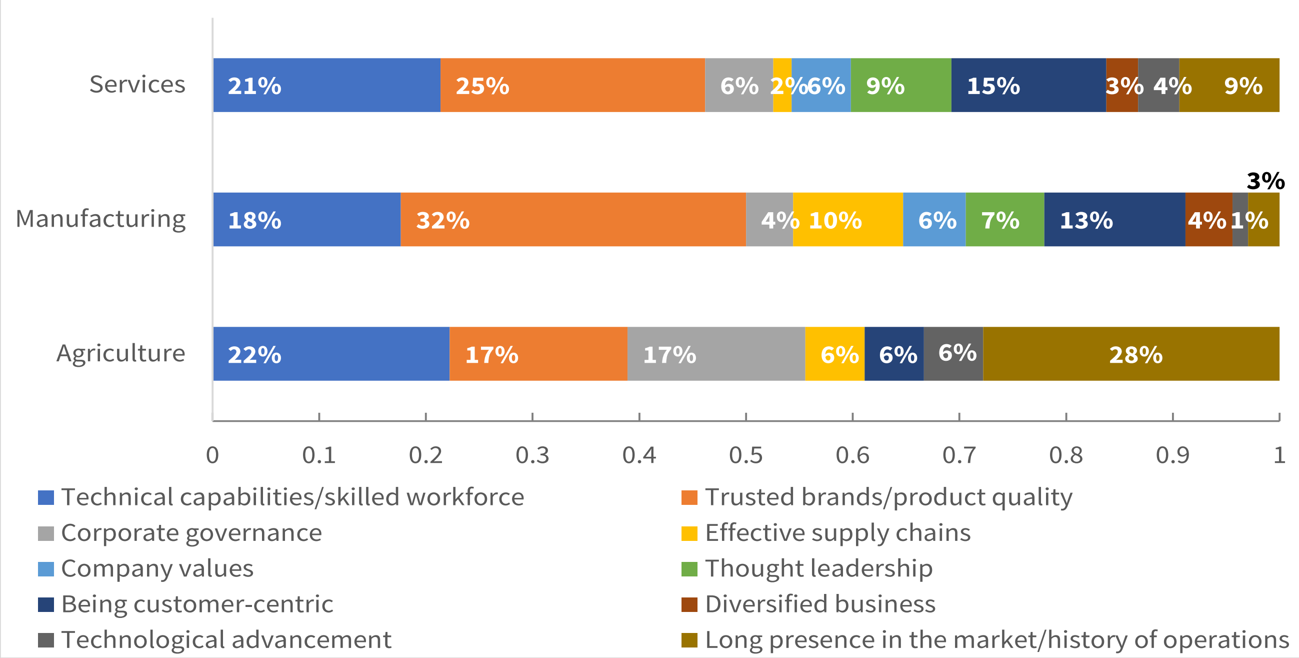
10. TOP COMPANY STRENGTHS

The Survey required respondents to indicate their company's strengths. Firms continued to report 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 20)**.

Chart 20: Firms' Top Strengths (percent of respondents)

At the sector level, besides the factors identified in **Chart 20**, thought leadership was an important factor for services and manufacturing sector firms. Effective supply chains were also important for manufacturing and agriculture sector firms **(Chart 21)**.

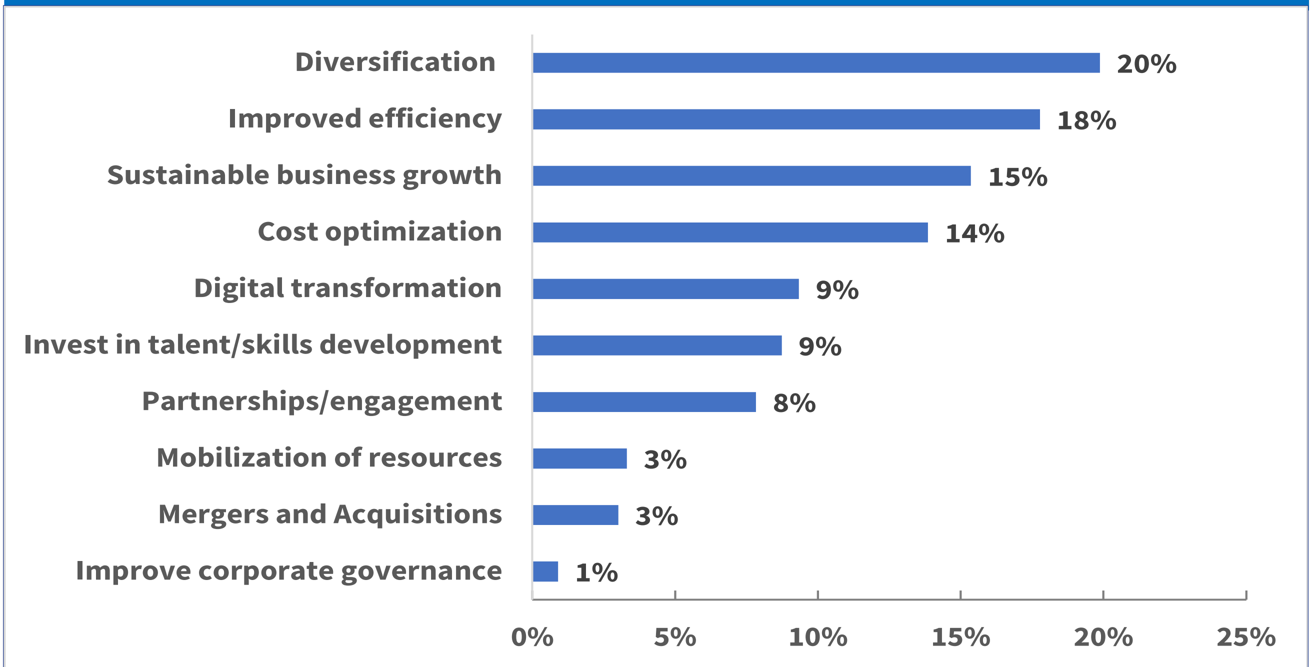
Chart 21: Firms' Top Strengths by Sectors (percent of respondents)



11. STRATEGIC PRIORITIES

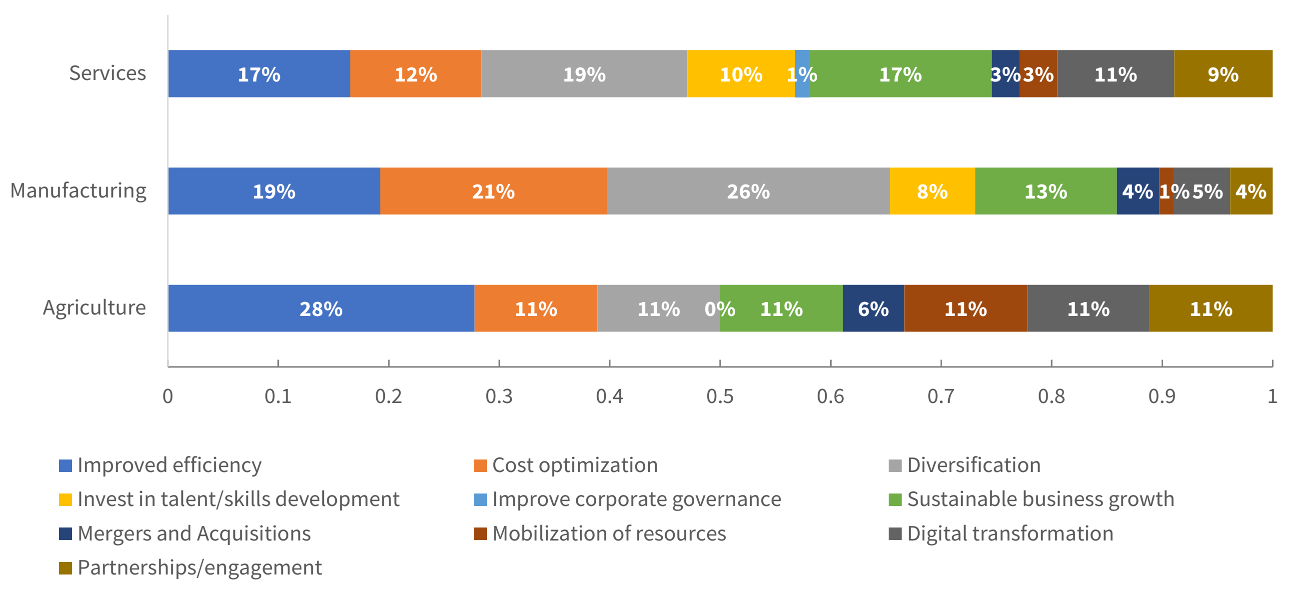
The Survey concluded by enquiring of respondents their strategic priorities over the next three years. The Survey revealed that firms plan to diversify, improve efficiency, optimize costs and grow their businesses sustainably **(Chart 22)**.

Chart 22: Firms' Strategic Priorities over the Next Three Years (percent of respondents)



Other than the common factors identified across all sectors, firms also identified digitization as well as investing in talent and skills development as other important factors **(Chart 23)**.

Chart 23: Firms' Strategic Priorities over the Next Three Years by Sector (percent of respondents)



12. CONCLUSION

The November 2023 CEOs Survey revealed subdued company, sectoral and global growth prospects in the next 12 months. Additionally, the survey respondents reported weak growth prospects for the Kenyan economy attributed to input cost constraints. Respondents noted that risks to global growth remained largely unchanged, in particular, geopolitical tensions and a weak global economic outlook. Consequently, their views on the prospects for global growth remained largely the same.

Business activity in 2023 Q4 was reported to be lower compared to 2023 Q3 due to high input costs and reduced consumer demand. Nevertheless, increased business activity was reported for firms in tourism due to seasonal factors, with financial and professional services firms also reporting increased demand for their services.

Surveyed firms expect business activity in 2024 Q1 to remain largely at the same level. Seasonal factors are expected to support firms in financial services, transport and storage and professional services sectors.

Expansion into new markets, customer centricity and talent management, remain the key drivers of firms' growth. In terms of constraining factors, respondents highlighted increased taxation, the business environment (cost of doing business) and the economic environment (high inflation and the weakening Shilling) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted energy prices, macroeconomic volatility and global inflation as threats to their expansion. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, and digitisation of their operations.

A stable macroeconomic environment, a stable Kenya Shilling and an enabling business environment were highlighted as factors that could strengthen firms' outlook in 2024.

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