



Central Bank of Kenya

CEO's Survey

May 2023

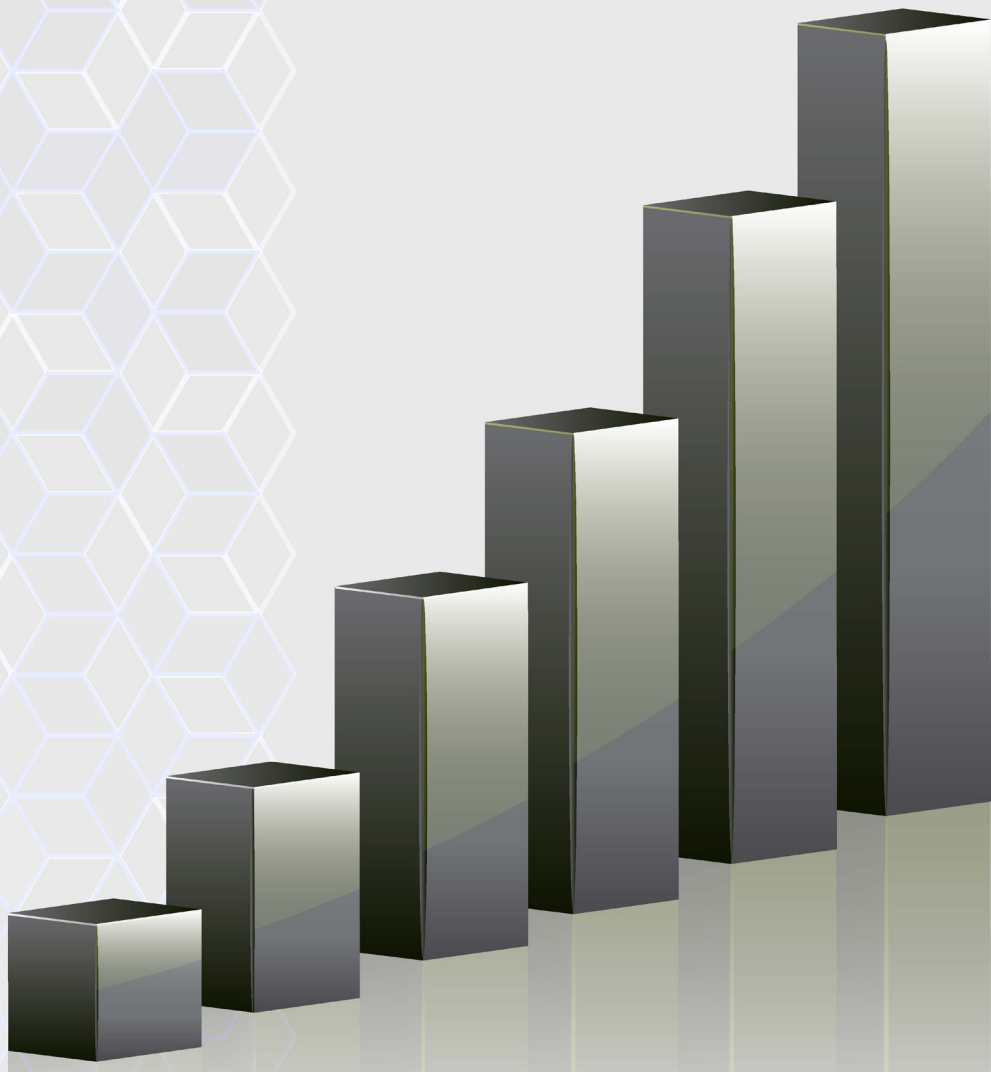


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1. BACKGROUND

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 its 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 decisions 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 May 2 and 15, 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 two (Q2) compared to 2023 quarter one (Q1), and their expectations for economic activity in the third quarter of 2023 (Q3). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (May 2023 – April 2024), as well as the strategic directions and solutions to address their key constraining factors over the medium term (May 2023 – April 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 (17 percent), financial services (14 percent), professional services (14 percent), health and pharmaceuticals (13 per cent), agriculture (8 percent), tourism, hotels and restaurants (7 percent), ICT and telecommunications (5 percent), transport and storage (5 percent), and wholesale and retail trade (4 percent). Other sectors such as mining and energy, education, real estate, security, building and construction, 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 six 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 26 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 improved on account of improved weather conditions which are expected to support agricultural production, easing of inflation and firm-specific growth opportunities. Firms in the healthcare services, professional services, tourism and ICT sectors reported opportunities for growth in their respective sectors. However, respondents expressed concern about proposals to increase taxation, the continued weakening of the Kenya shilling, reduced liquidity in the market and increase in fuel prices.
- Optimism regarding growth prospects for the Kenyan economy improved due to easing of inflation and expected increased agricultural production.

- Optimism for global growth also improved on the back of an improving but uncertain economic outlook, but respondents remained concerned about the lingering war in Ukraine and interest rate hikes in advanced economies.
- Respondents reported a slight improvement in business activity in 2023 Q2 compared to 2023 Q1. Increased business activity was reported for firms in financial and ICT services, with the tourism and transport sectors also experiencing increased activity associated with the Easter period and school holidays. Nevertheless, respondents reported that high interest rates, the effects of the weakening Shilling, anti-government protests and reduced liquidity constrained business activity in the second quarter.
- Surveyed firms expect business activity in 2023 Q3 to improve further owing to continued easing of inflation, and expected improved agricultural output. Seasonal factors are also expected to support tourism, and professional services firms.
- 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 weakening Shilling) 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, potential global recession and 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.

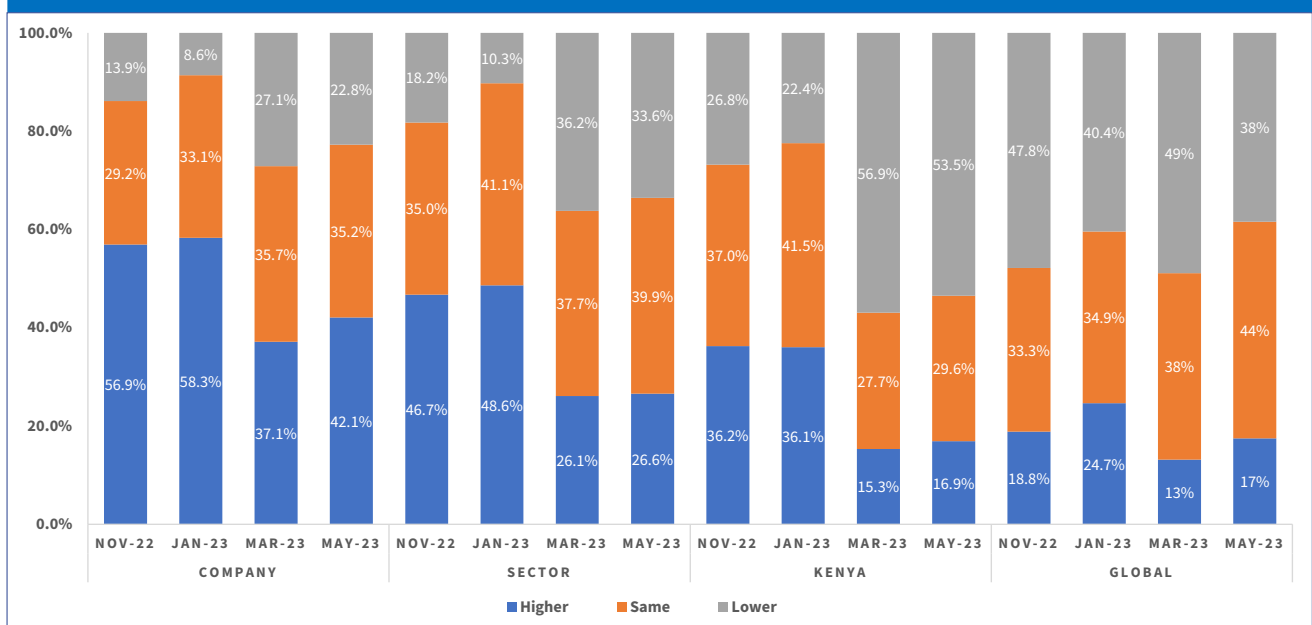
- A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms' outlook in 2023.

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. Business optimism for company and sectoral growth prospects improved on account of improved weather conditions which are expected to support agricultural production, easing of inflation and firm-specific growth opportunities (**Chart 1**). Firms in the healthcare services, professional services, tourism and ICT sectors reported opportunities for growth in their respective sectors. Nevertheless, respondents expressed concerns about proposals to increase taxation, the weakening of the Kenya shilling, reduced liquidity in the market and increase in fuel prices.

Optimism regarding growth prospects for the Kenyan economy improved, due to easing of inflation and expected increased agricultural production. Optimism for global growth equally improved on the back of an improved although uncertain economic outlook, with respondents remaining concerned about the lingering war in Ukraine and interest

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



rate hikes in advanced economies. The improved optimism in growth prospects led to a recovery in the Business Confidence Index (**Annex 1**).

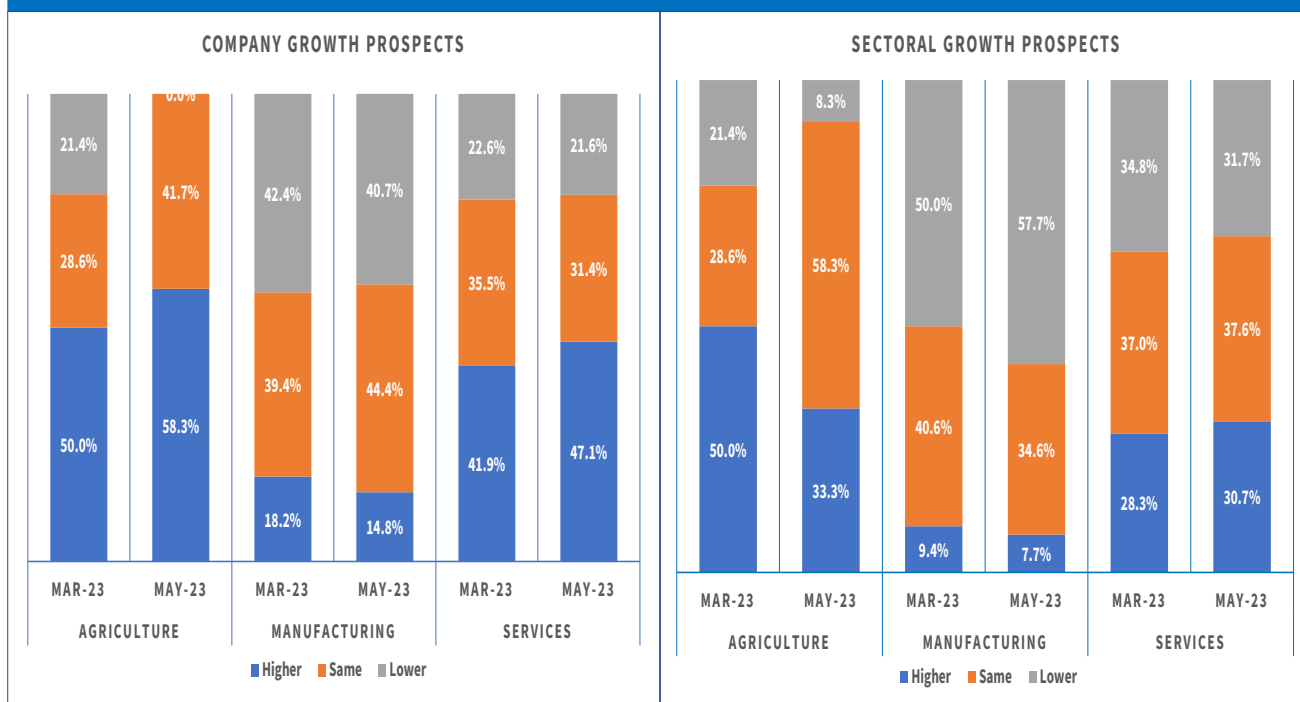
The agriculture sector continued to report higher optimism for growth of their companies in the latest Survey compared to other sectors (**Chart 2**). Respondents attributed their optimism to the favourable weather conditions, gains from the exchange rate and firm-specific growth strategies. Nevertheless, respondents noted that business activity had been constrained by the high cost of living.

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 continued to cite the increase in cost

of production due to the weakening Shilling, and the increasing cost of fuel and electricity as constraining factors. Additionally, respondents noted that heightened political activity in the period, including anti-government protests had adversely affected business activity.

In the services sector, respondents highlighted that limited liquidity and the impact of the high cost of living was constraining business activity. Businesses in the tourism and travel industry reported increased bookings due to seasonal factors while in the healthcare sector firms reported positive growth prospects buoyed by the Government’s push for universal healthcare. Nonetheless, respondents expressed concern regarding taxation, the high debt burden and high cost of living.

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



6. BUSINESS ACTIVITY IN 2023 Q2 COMPARED TO 2023 Q1

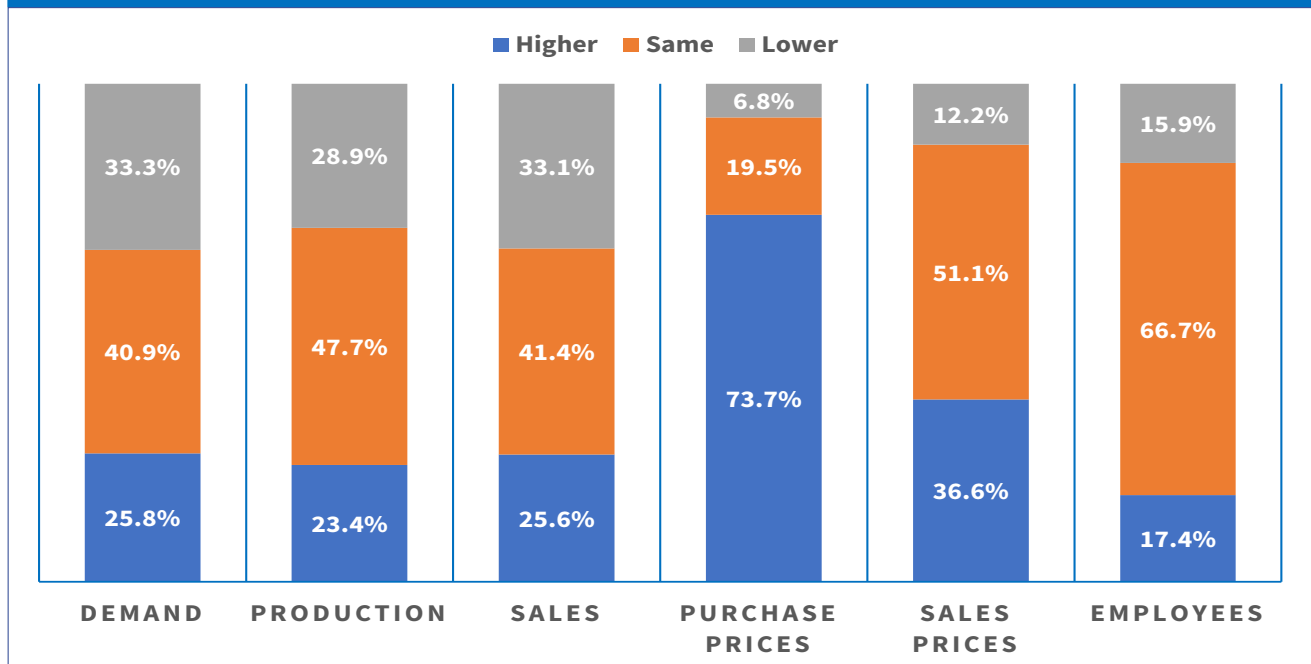
The Survey sought CEOs perceptions on business activity in the second quarter of 2023 compared to the first quarter of 2023. Respondents reported improved business activity in 2023 Q2 compared to 2023 Q1. Demand/orders, production volumes and sales were higher or the same for firms in professional services, transport, and tourism sectors (**Chart 3**). Across all sectors, firms reported persistence of elevated prices of goods and services purchased.

Firms in the agriculture sector reported increased production and sales following the enhanced rainfall. Nonetheless, input costs remained high due to the weakening of the Shilling.

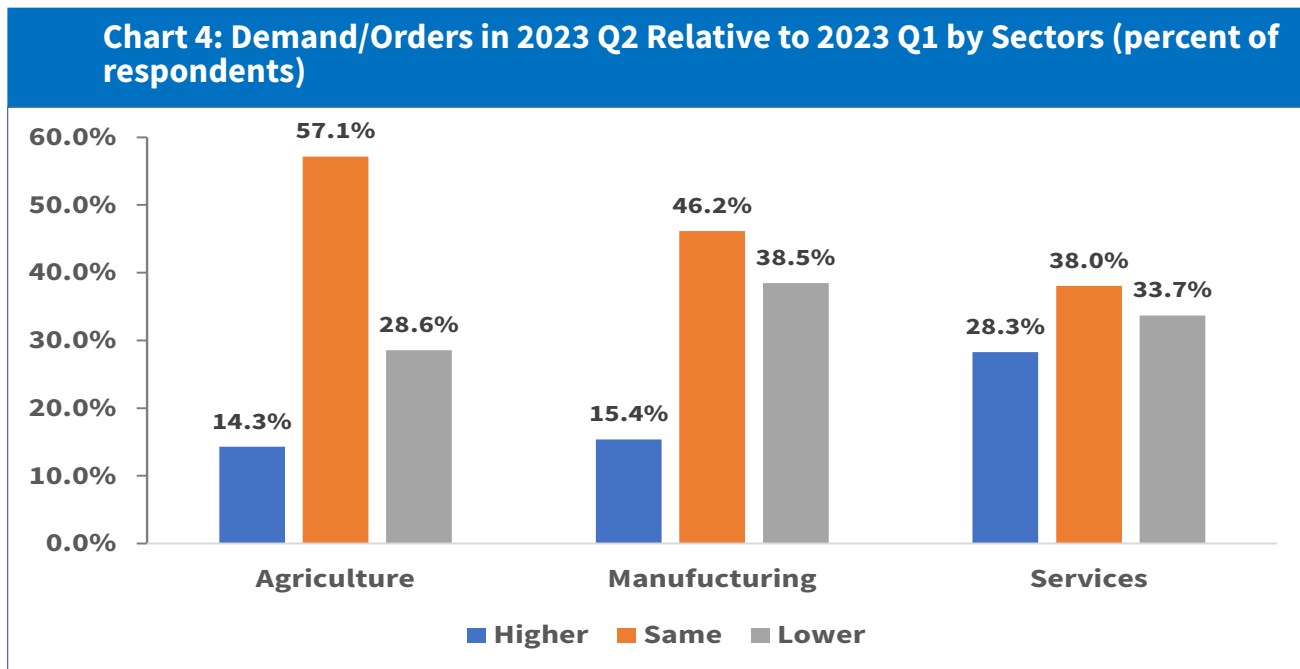
Firms in the manufacturing sector reported increased demand especially for exports. Nevertheless, domestic consumer demand remained low leading to reduced economic activity.

In the services sector, firms reported business activity remaining largely the same with respondents faulting a very challenging business environment. High inflation, high bank interest rates, high forex rates, poor liquidity in the market were cited as factors that constrained businesses in 2023 Q2. Reduced sales were reported with businesses witnessing longer conversion times as customers took longer to make decisions.

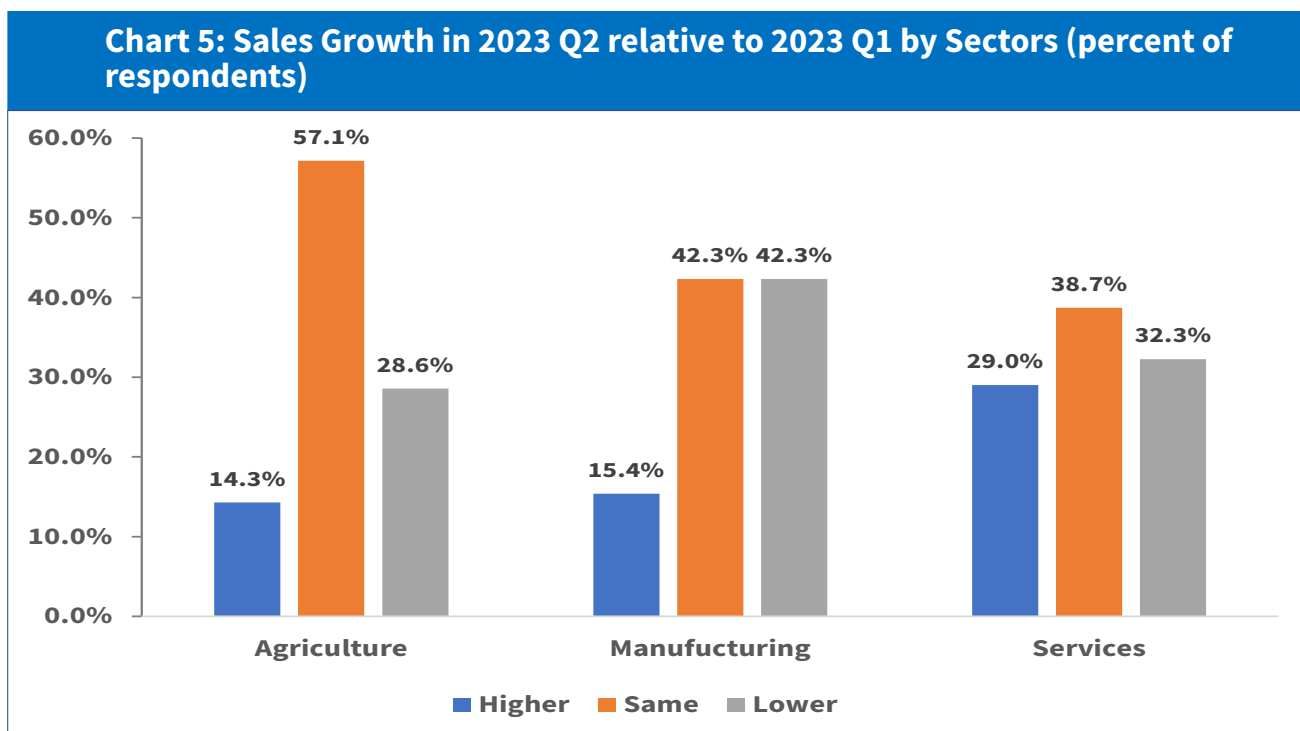
Chart 3: Business Activity in 2023 Q2 Compared to 2023 Q1 (percent of respondents)



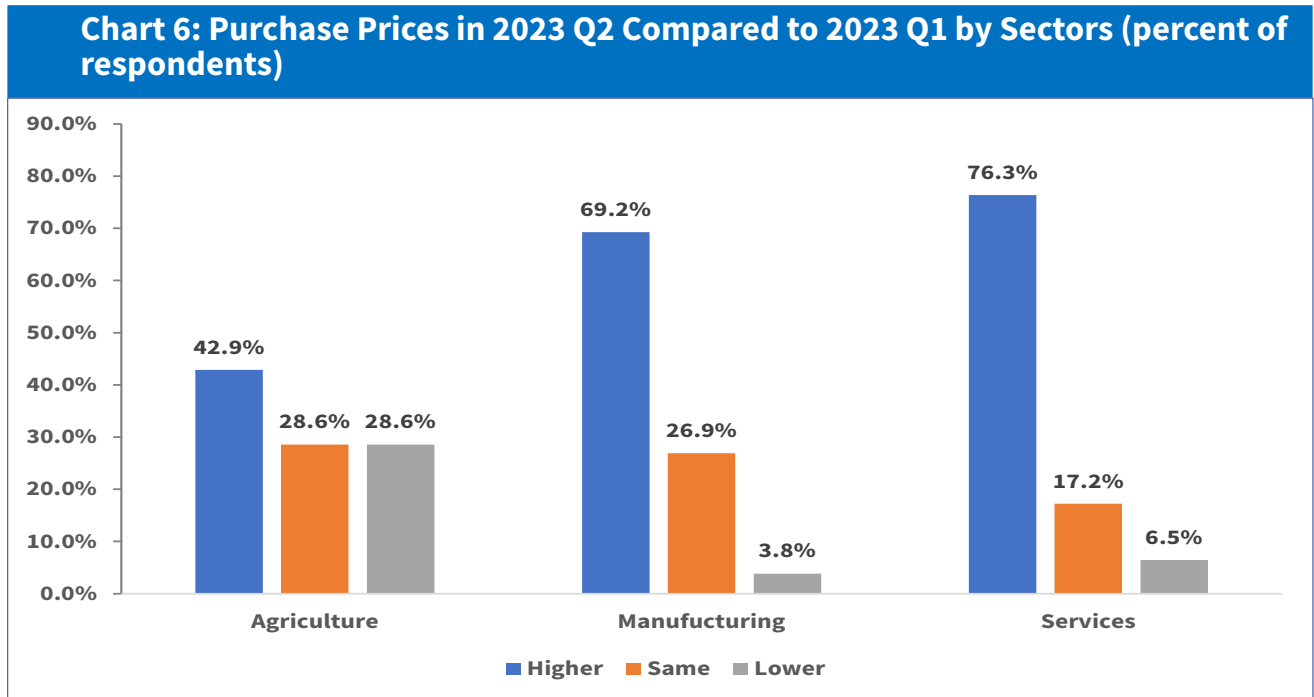
In terms of sectoral demand in the second quarter of 2023, majority of firms reported demand/orders remaining largely the same (**Chart 4**).



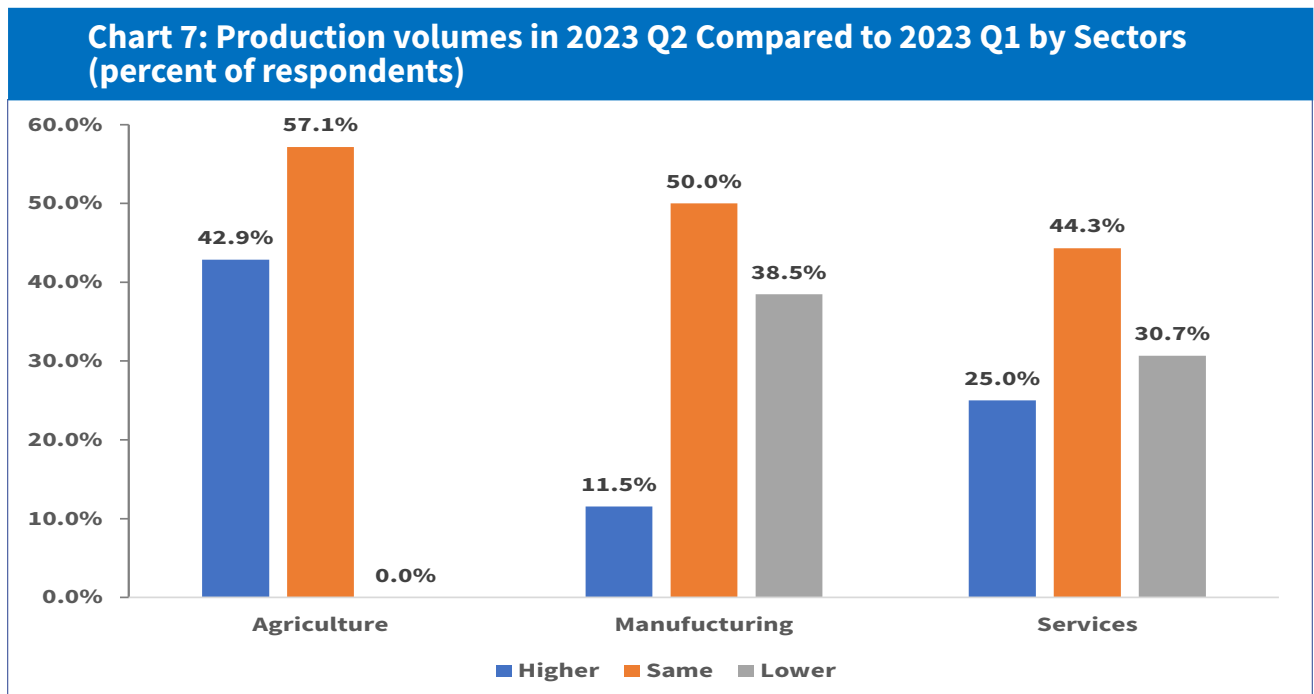
Services sector firms reported higher sales growth compared to other sectors (**Chart 5**). This was attributed to increased demand particularly for the tourism and transport sectors.



Elevated inflation and the impact of a weakening Shilling continued to affect purchase prices (**Chart 6** and **Annex 2**). About 76 percent and 69 percent of services and manufacturing sector respondents, respectively reported higher purchase price.



Production volumes increased for agriculture sector firms following the onset of the rainy season. For majority of firms in the manufacturing and services sectors, however, production volumes remained the same due to reduced consumer demand (**Chart 7**).

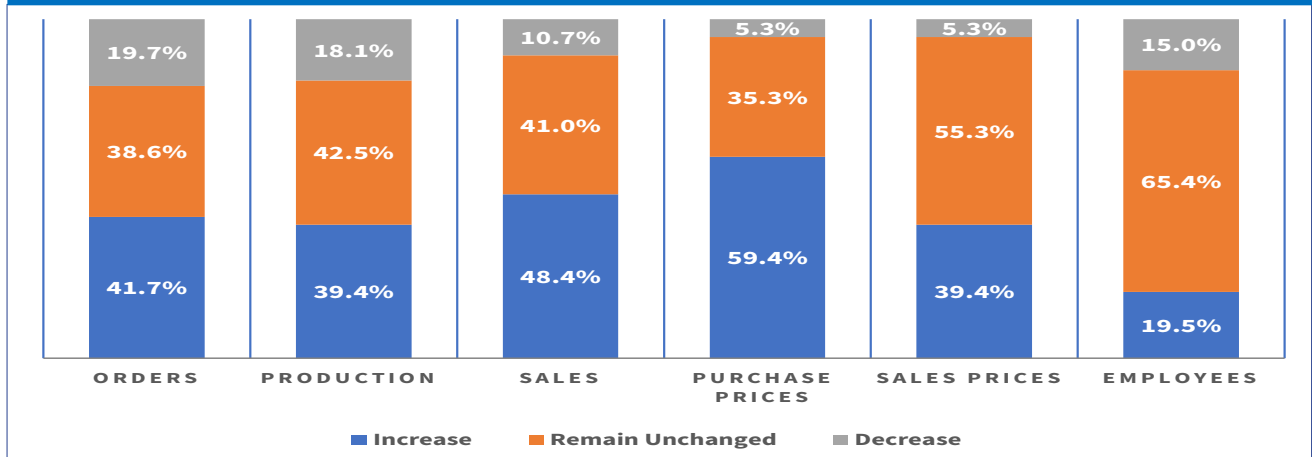


7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q3 COMPARED TO 2023 Q2

The Survey sought CEOs expectations of business activity in the third quarter of 2023 relative to the second quarter. The CEOs reported that business

activity is expected to improve further in Q3, with orders and sales increasing for majority of respondents **(Chart 8)**.

Chart 8: Outlook on Business Activity in 2023 Q3 compared to 2023 Q2 (percent of respondents)



Firms in the agriculture sector expect that production volumes will increase in response to the enhanced rainfall witnessed across the country. Seasonal factors are also expected to support orders and sales especially for horticultural products.

Businesses in the manufacturing sector do not anticipate a significant change in business conditions with the high cost of living continuing to subdue consumer demand. Nevertheless, the easing of inflation could be beneficial to the muted business environment. Additionally, purchase prices are expected to remain elevated for firms across all sectors **(Annex 3)**.

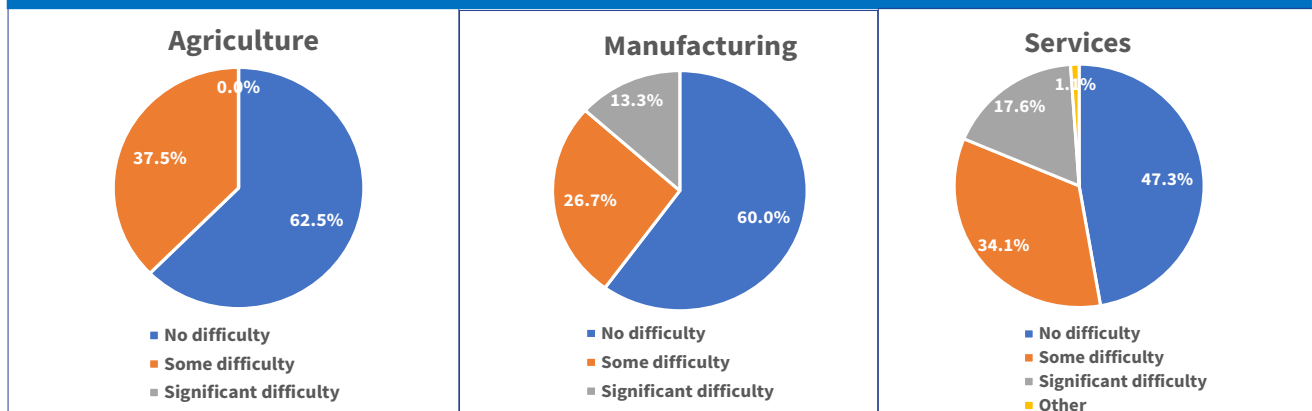
Services sector firms reported putting in place various measures to increase demand for their services, hence expected increase in sales and orders. While

firms in healthcare and pharmaceutical services reported a healthy pipeline of investment, those in the tourism sector reported anticipated increased business with the onset of the peak season.

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 being well capitalized to meet demands hence capacity to scale up.

Firms which reported possible difficulty in expanding their operations cited the high cost of doing business, a constraining business environment and high cost of credit as the main reasons holding back their ability to expand. Other reasons cited included reduced consumer demand and financing challenges.

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

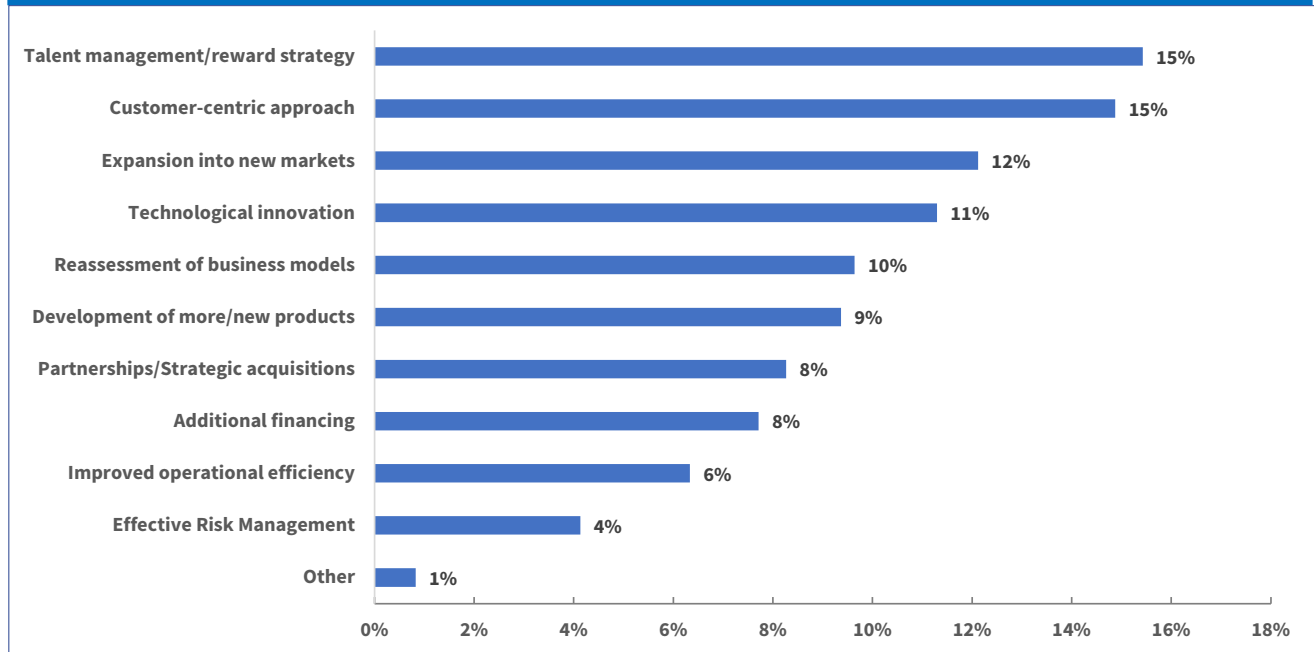


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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.

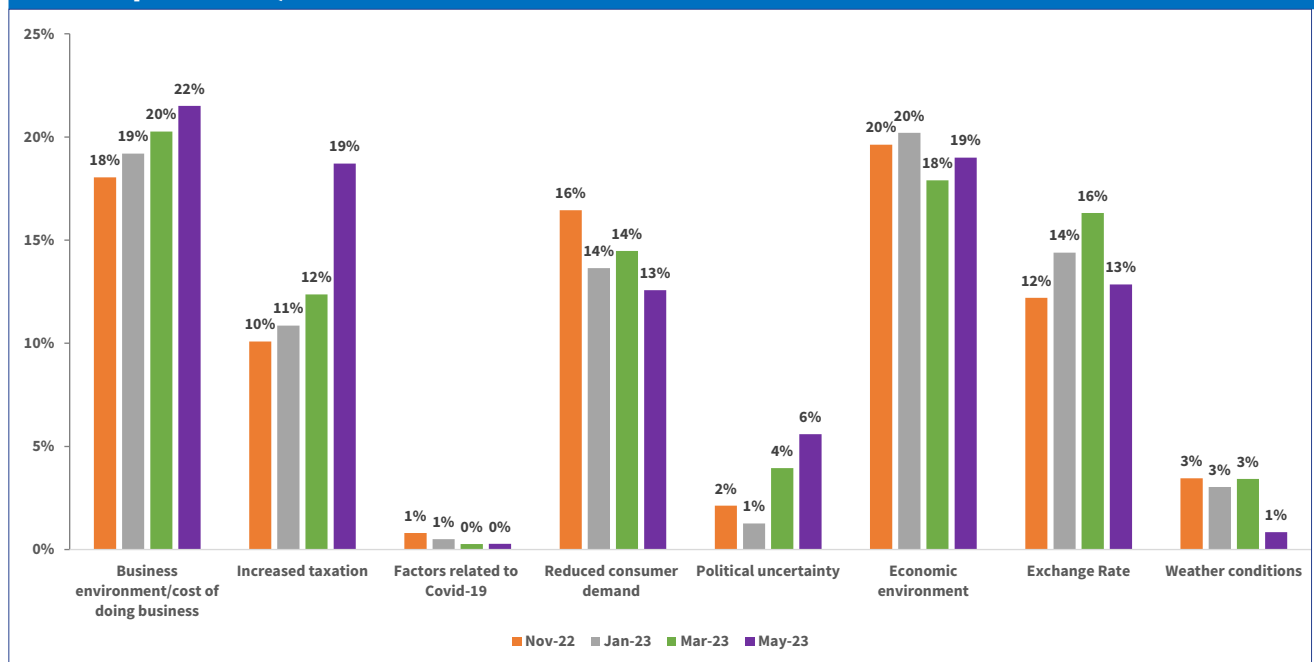
The results show that talent management, customer centricity and expansion into new markets are the key drivers of firms' growth over the next one year (**Chart 10**).

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



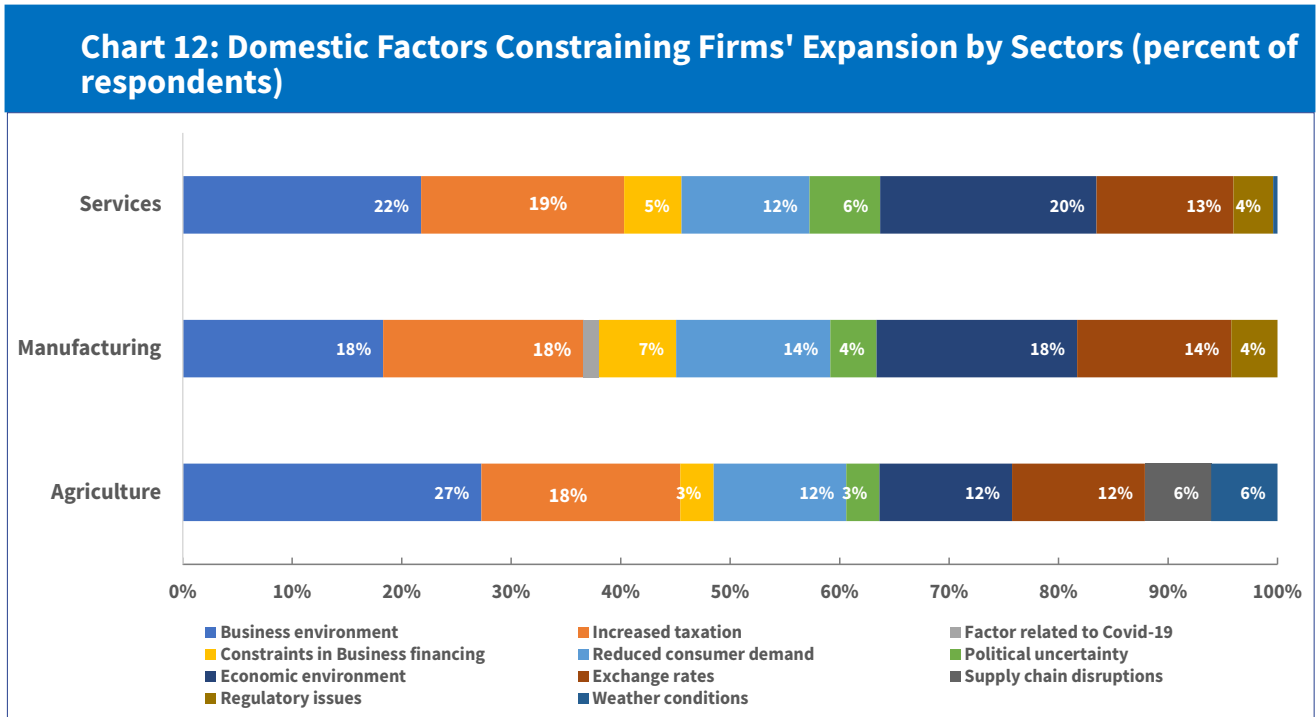
In terms of domestic factors that could constrain their growth, respondents continued to highlight the economic environment (high inflation) and the business environment (cost of doing business). In addition, increased taxation came up as a significant factor (**Chart 11**).

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



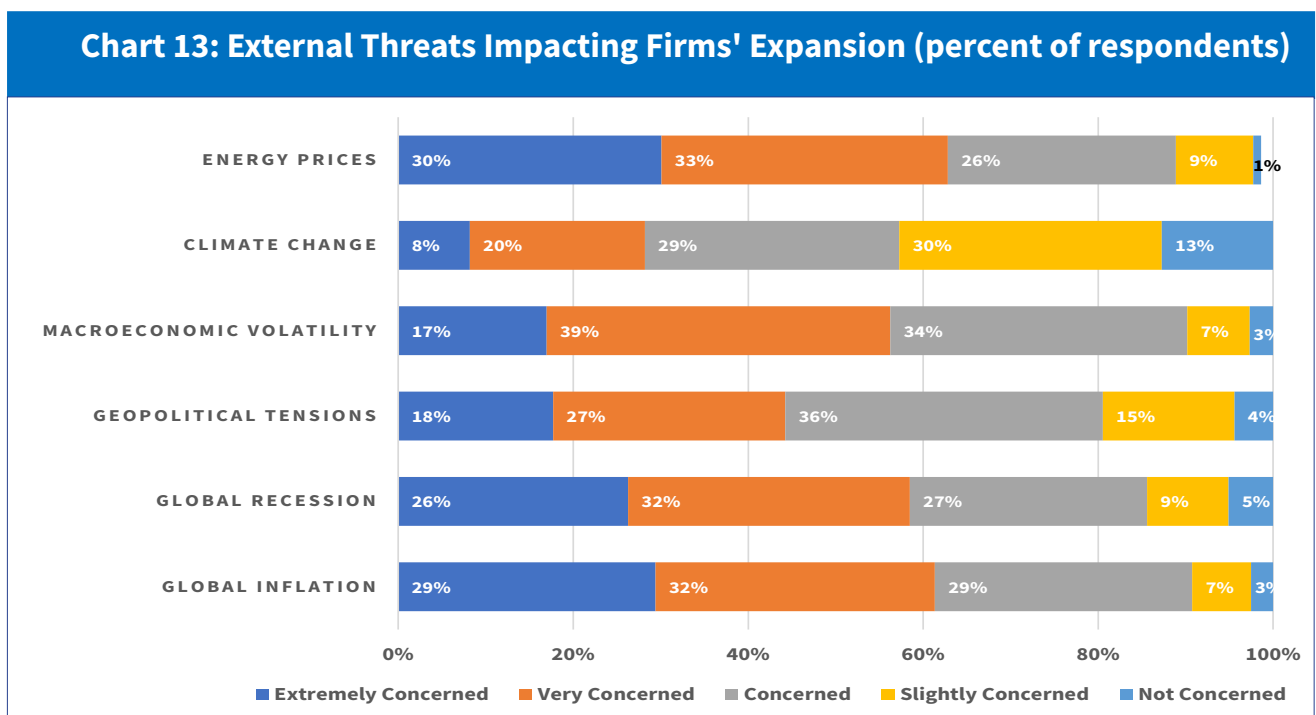
The business environment was of greater concern for firms in the services and agriculture sectors. Firms in the manufacturing sector on the other hand were equally concerned about the business environment with increased taxation and the economic

environment ranking equally. Other highly ranking concerns were the exchange rate and reduced consumer demand (**Chart 12**).

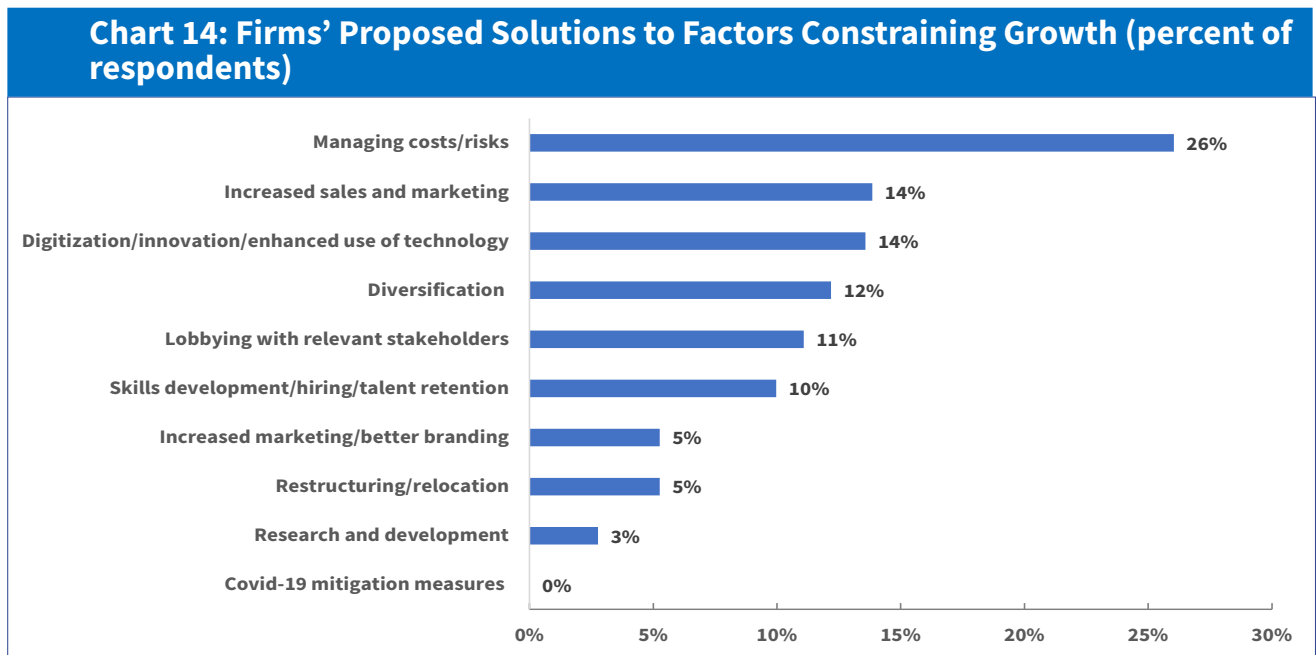


The Survey also sought to establish the top external (non-domestic) threats impacting businesses. Respondents were most concerned about global inflation, energy prices and recession fears (**Chart 13**). Agriculture sector firms were most concerned

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

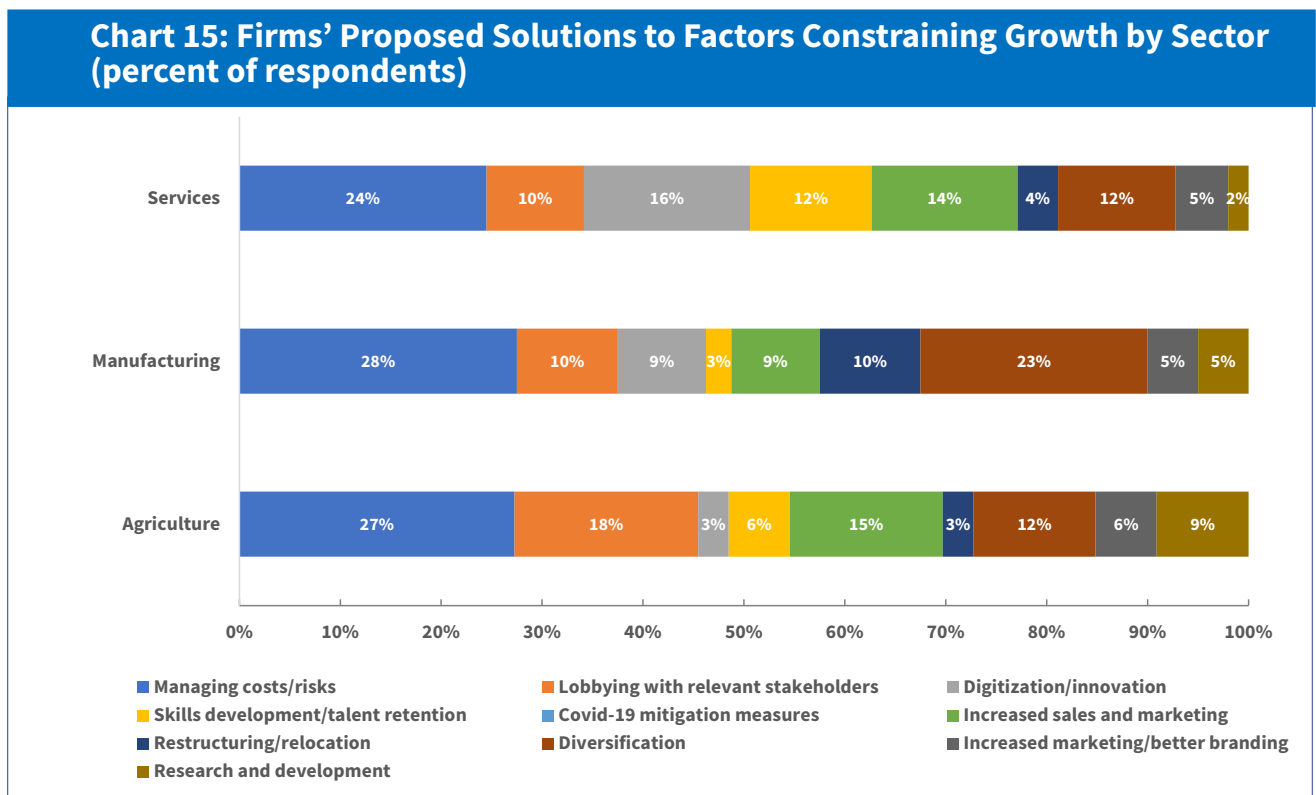


To mitigate the factors constraining growth/expansion, firms proposed various solutions including, management of costs and risks, increased sales and marketing, and digitization of their operations (**Chart 14**).



Other important factors for respective sectors were diversification and skills development (services sector), diversification and lobbying with relevant

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

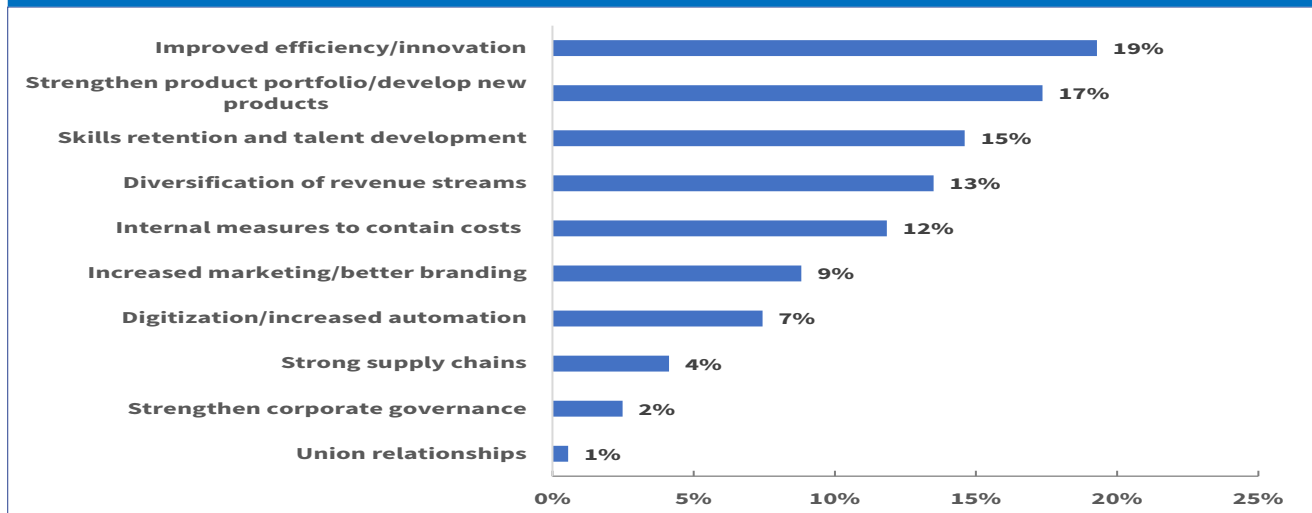


9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

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 strengthening product portfolio as the main internal factors that could

strengthen outlook across all sectors. Skills retention/ talent development as well as diversification of revenue streams also continue to be important internal factors to strengthen outlook for majority of firms (**Chart 16**).

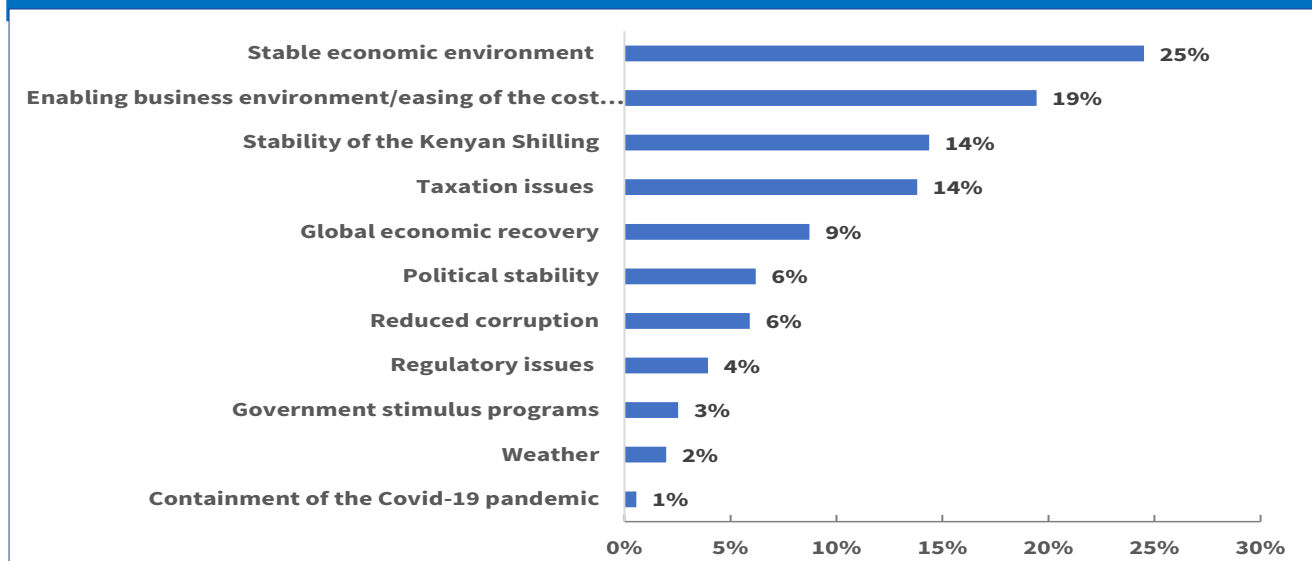
Chart 16: Internal Factors that could Strengthen Firms' Outlook (percent of respondents)



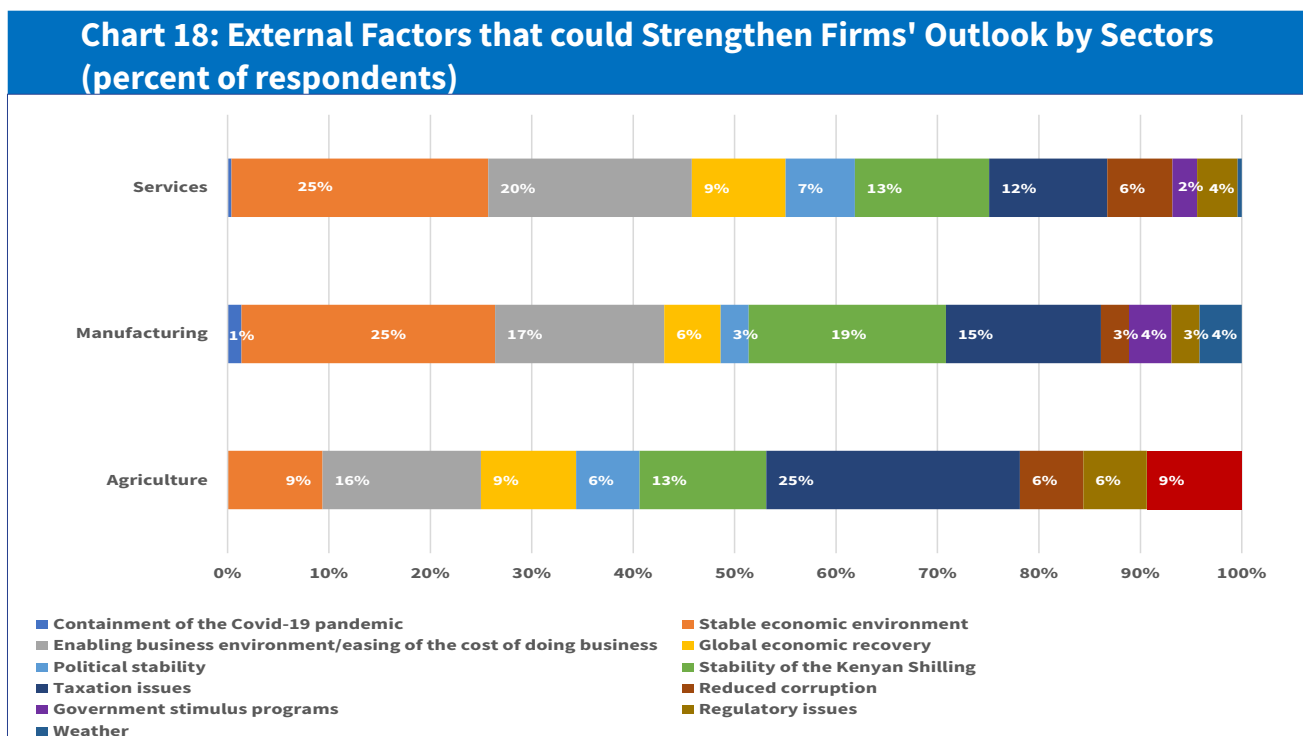
A sectoral analysis of the identified internal factors revealed that internal measures to control costs and increased marketing/better branding were other important factors for agriculture and manufacturing sector firms. In the services sector, digitization and internal measures to control costs were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

Firms continued to identify a stable economic environment, an enabling business environment and stability of the Kenyan Shilling 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)



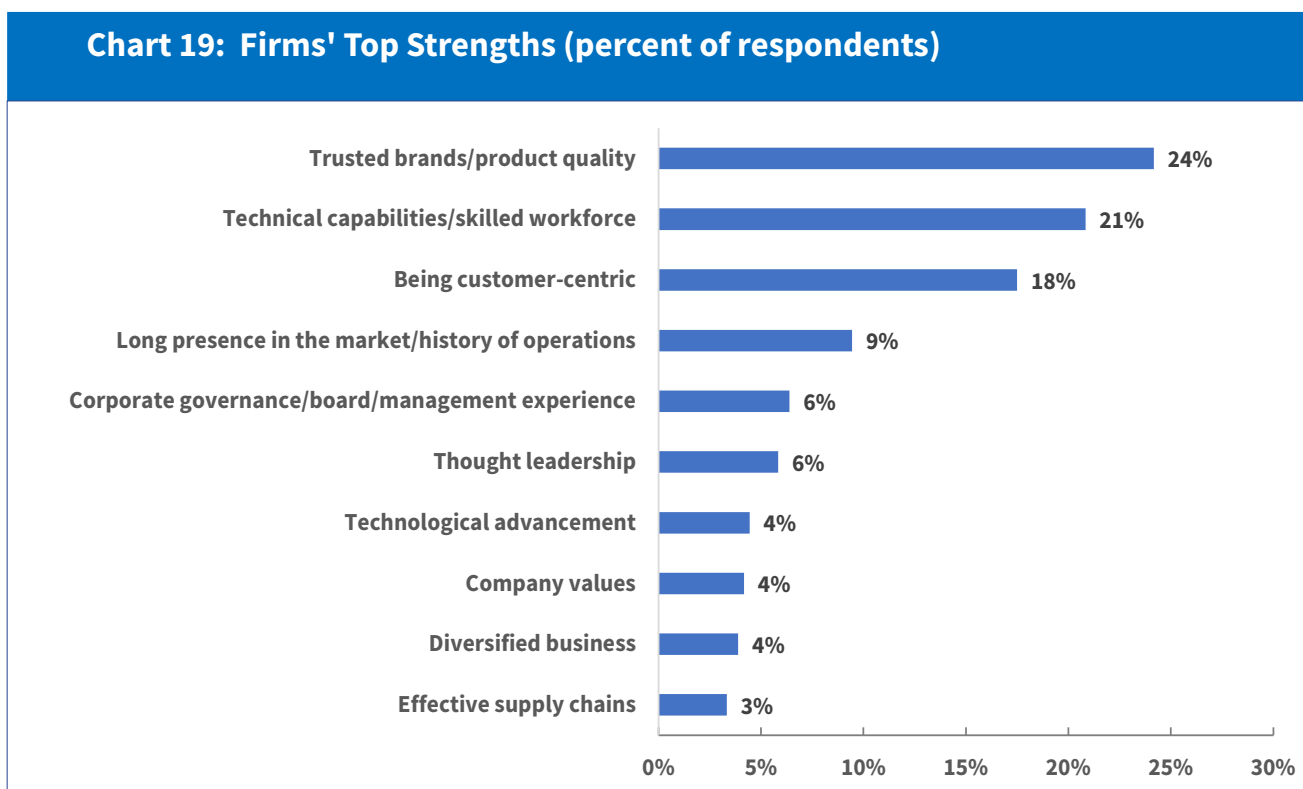
Besides the top three factors identified in **Chart 17**, taxation issues were an equally important factor for all sectors (**Chart 18**).



10. TOP COMPANY STRENGTHS

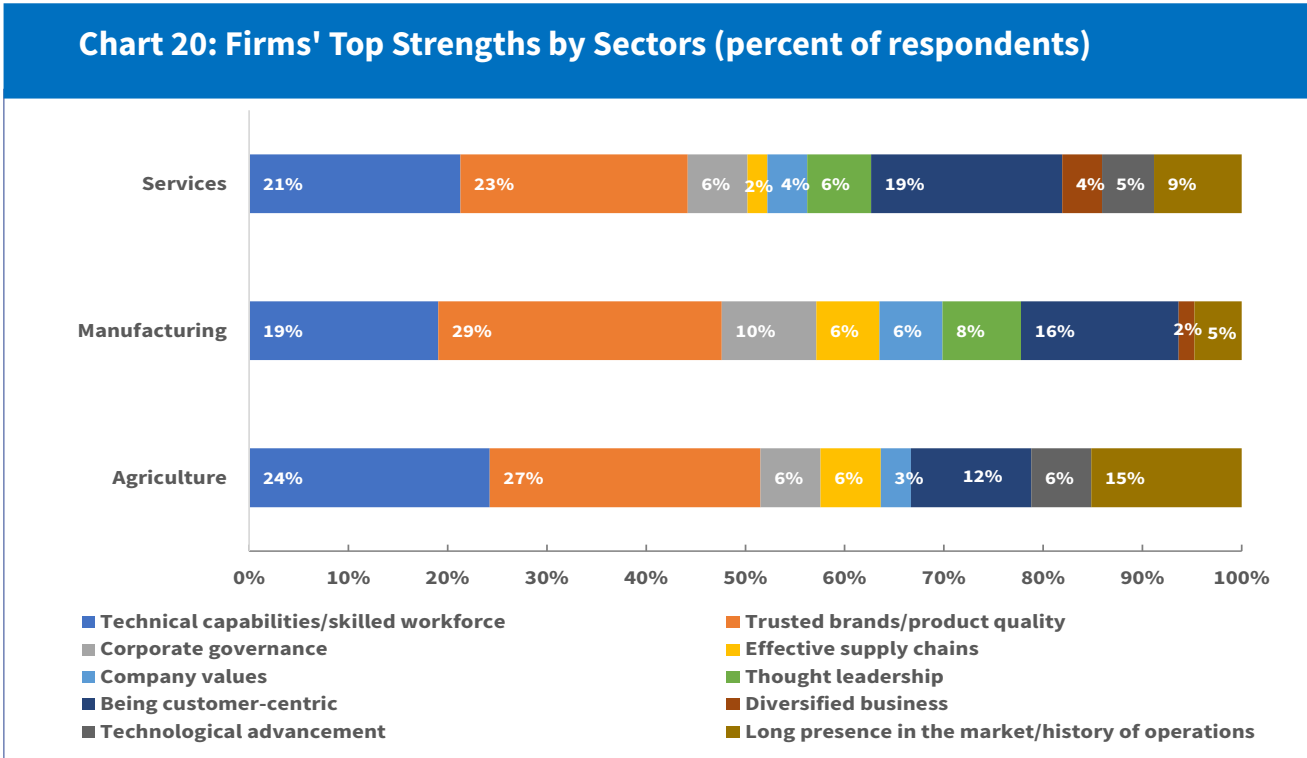
The Survey required respondents to indicate their company's strengths. Firms continued to report trusted brands/product quality, technical

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

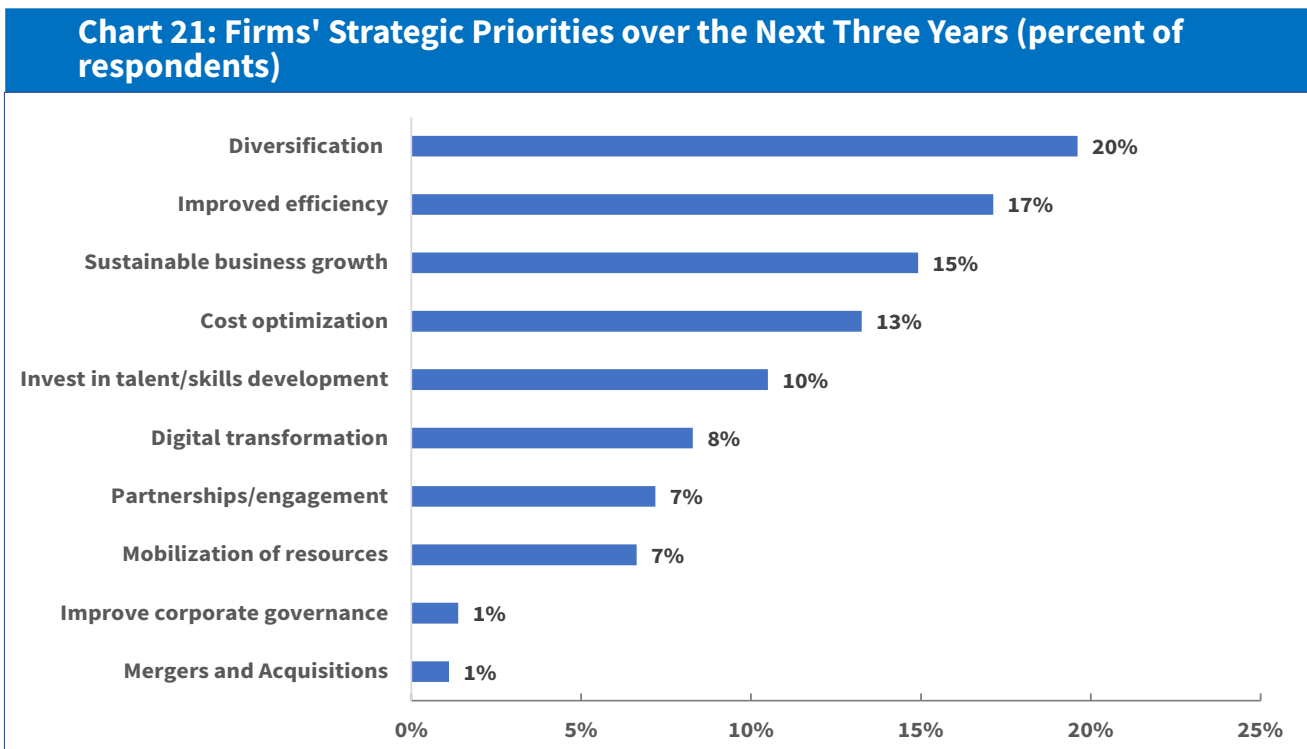
chains were also important for manufacturing and agriculture sector firms (**Chart 20**).



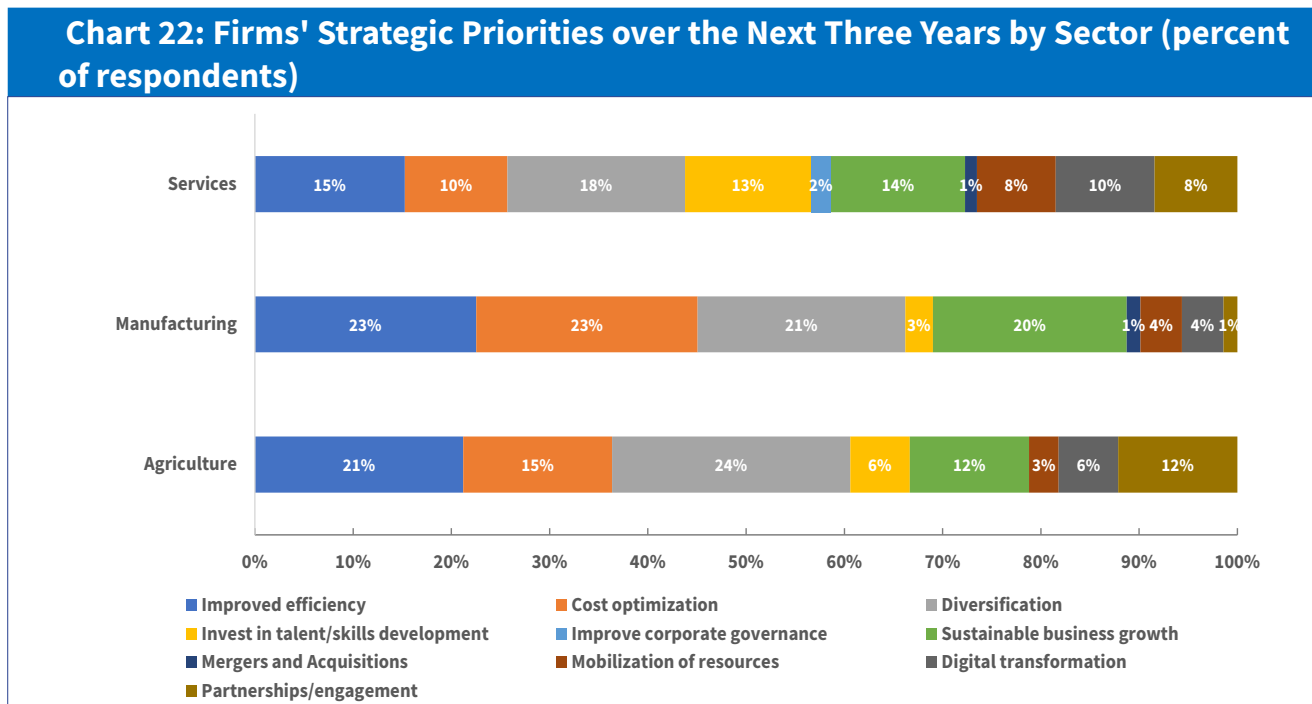
11. STRATEGIC PRIORITIES

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 cost optimization as another important factor. Cost optimization was an equally important priority for the manufacturing and agricultural sectors (**Chart 22**).



12. CONCLUSION

The May 2023 CEOs Survey revealed improved business optimism about company and sectoral growth prospects. Optimism was attributed to improved weather conditions which are expected to support agricultural production, easing of inflation and firm-specific growth opportunities. However, respondents expressed concern about proposals to increase taxation, the continued weakening of the Kenya shilling, reduced liquidity in the market and increase in fuel prices.

Optimism regarding growth prospects for the Kenyan economy improved due to easing of inflation and expected increased agricultural production. On the growth of the global economy, respondents attributed their optimism majorly to an improving albeit uncertain economic outlook, but respondents remained concerned about the lingering war in Ukraine and interest rate hikes in advanced economies.

Business activity in 2023 Q2 improved compared to 2023 Q1. Increased business activity was reported for firms in financial services, and ICT services, with the tourism and transport sectors experiencing increased activity due to seasonal factors. Nevertheless, respondents reported that high interest rates, the

effects of the weakening Shilling, anti-government protests and reduced liquidity constrained business activity in the second quarter. Surveyed firms expect business activity in 2023 Q3 to improve further owing to continued easing of inflation, and expected improved agricultural output.

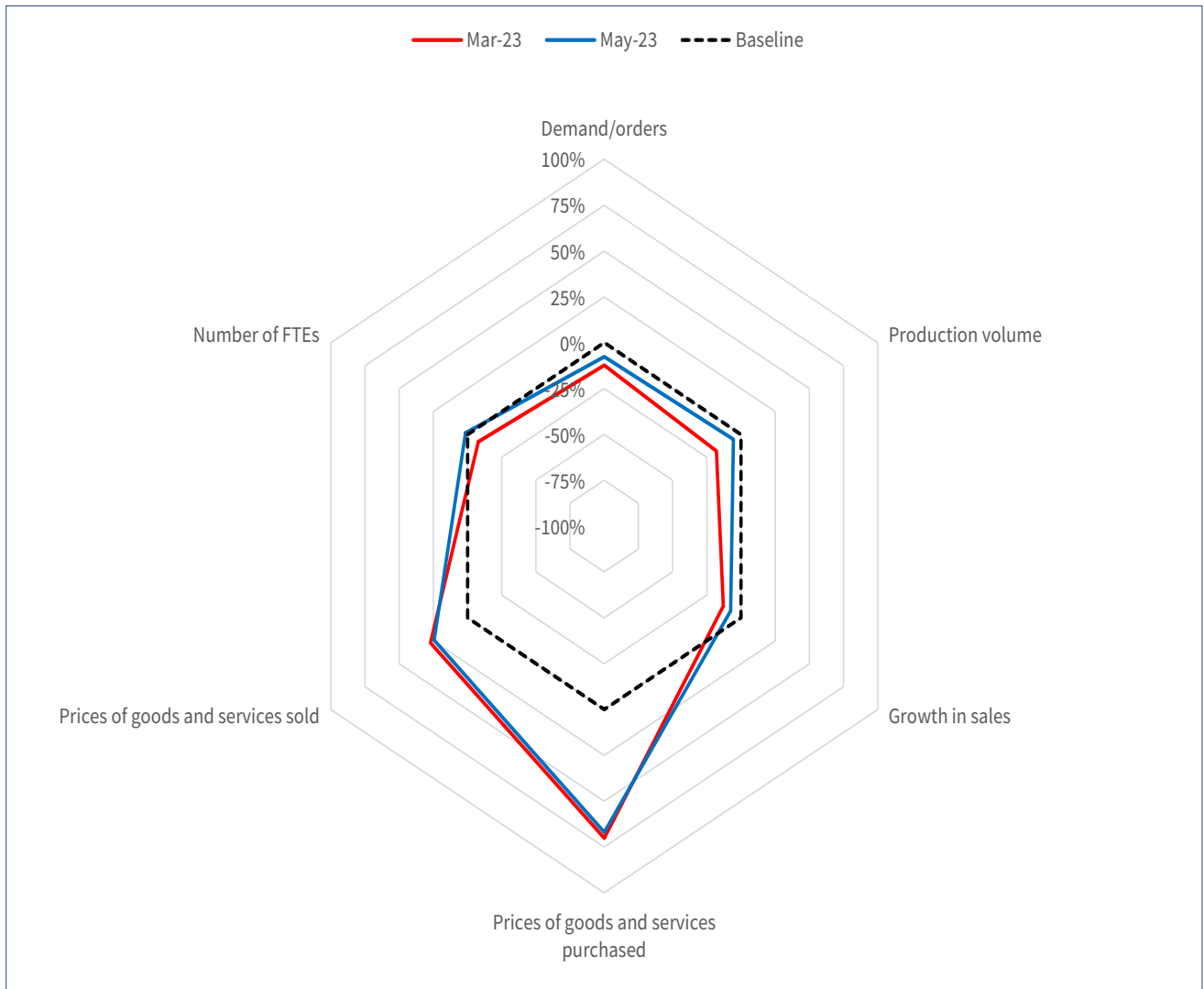
Customer centricity, expansion into new markets and talent management remain the key drivers of firms' growth. In terms of constraining factors, respondents highlighted the economic environment (high inflation and the performance of the local currency) and the business environment (cost of doing business) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, recession fears and 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 remain the key factors that could strengthen firms' outlook in 2023.

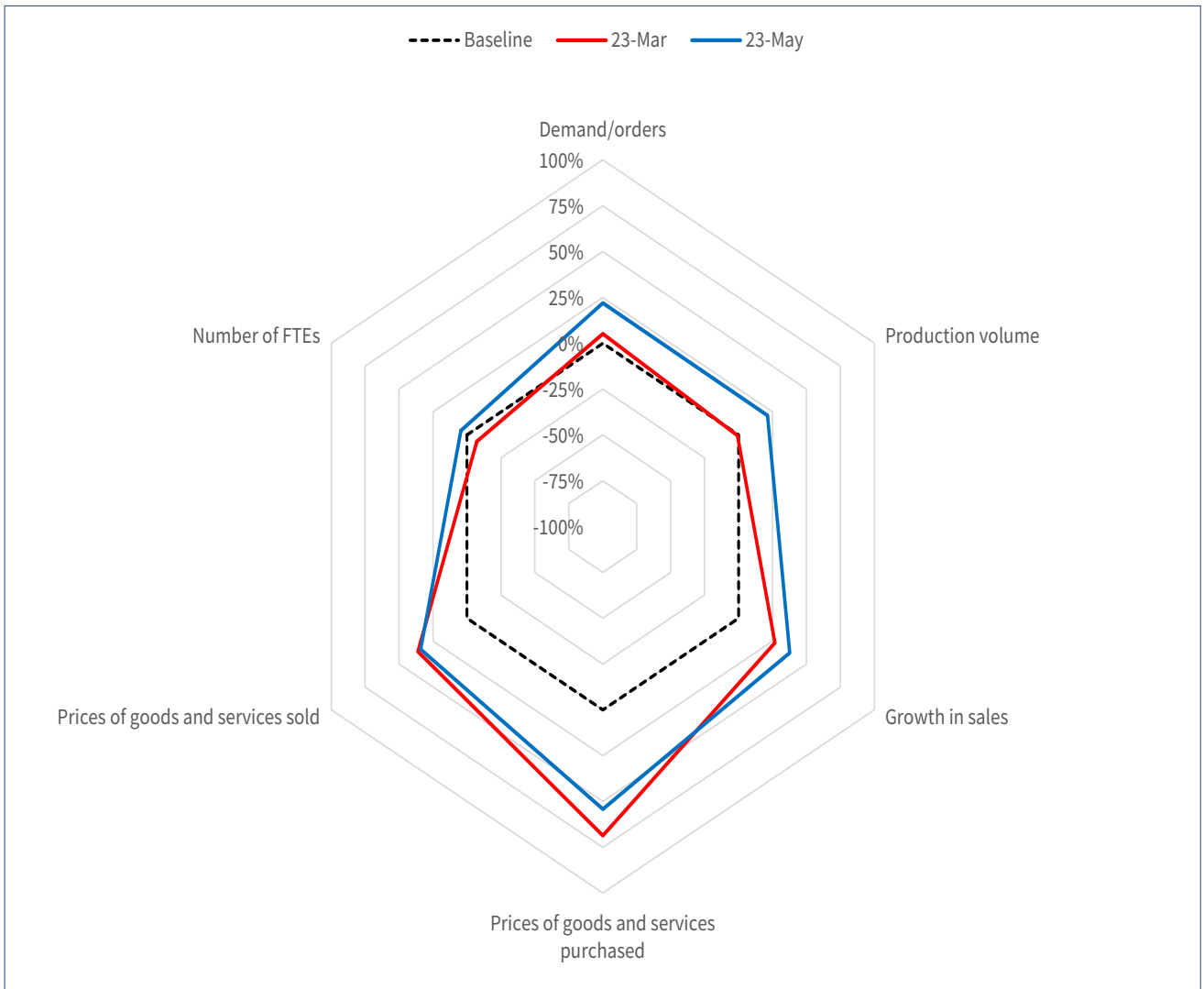
ANNEX 1: CBK BUSINESS CONFIDENCE INDEX



ANNEX 2: 2023 Q2 PURCHASE PRICES



ANNEX 3: EXPECTATIONS OF 2023 Q3 BUSINESS ACTIVITY





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