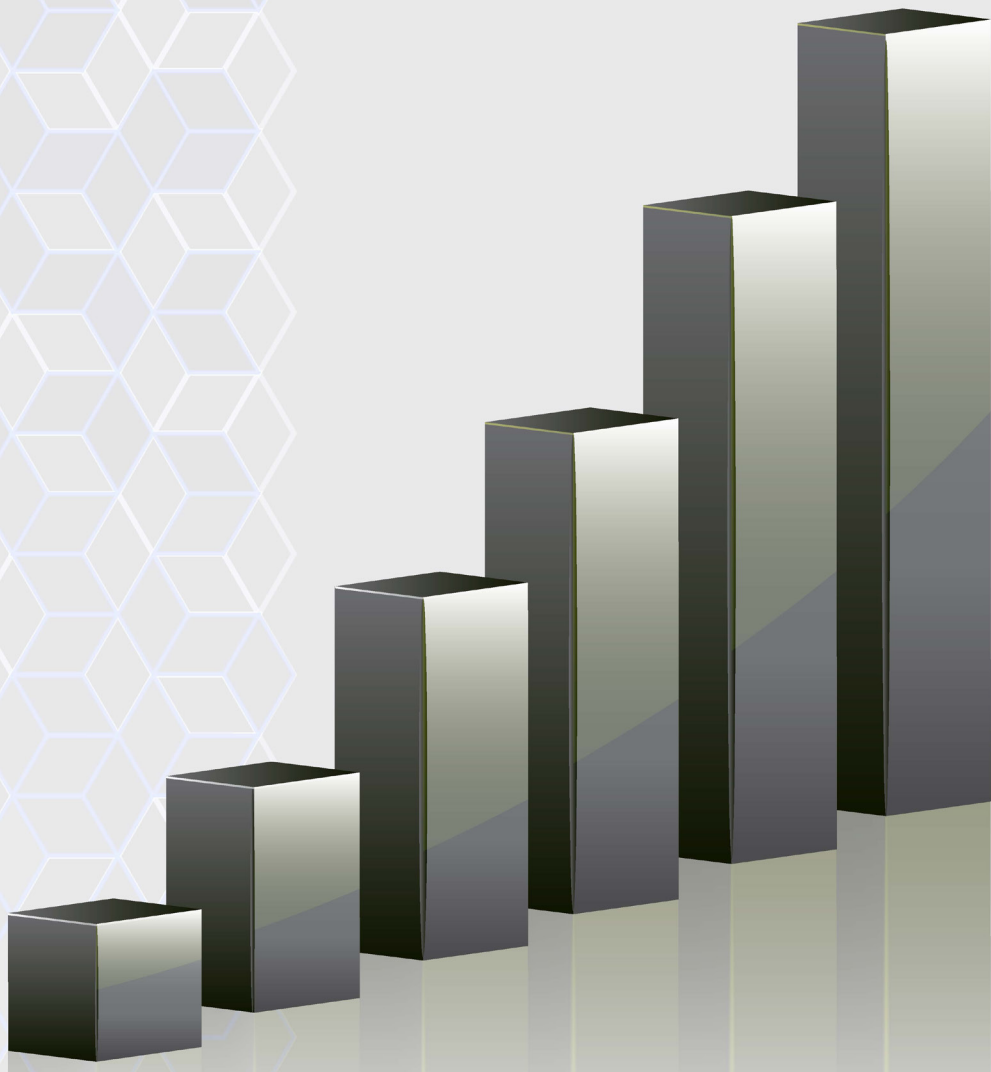




**Central Bank of Kenya**

# **Chief Executive Officers' (CEOs) Survey**

September 2023





## TABLE OF CONTENTS

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|  |    |
|--|----|
| 1. BACKGROUND.....   | 1  |
| 2. INTRODUCTION.....   | 1  |
| 3. SURVEY METHODOLOGY .....  | 1  |
| 4. KEY HIGHLIGHTS OF THE SURVEY.....                                 | 1  |
| 5. BUSINESS CONFIDENCE/ OPTIMISM OVER THE NEXT 12 MONTHS.....        | 2  |
| 6. BUSINESS ACTIVITY IN 2023 Q3 COMPARED TO 2023 Q2.....             | 4  |
| 7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q4 COMPARED TO 2023 Q3..... | 6  |
| 8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS.....            | 8  |
| 9. FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS..... | 11 |
| 10. TOP COMPANY STRENGTHS.....                                       | 12 |
| 11. STRATEGIC PRIORITIES.....  | 13 |
| 12. CONCLUSION.....  | 14 |
| ANNEX 1: 2023 Q3 PURCHASE PRICES.....                                | 15 |

## 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 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 September 4 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 three (Q3) compared to 2023 quarter two (Q2), and their expectations for economic activity in the fourth quarter of 2023 (Q4). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (September 2023 – August 2024), as well as the strategic directions and solutions to address their key constraining factors over the medium term (September 2023 – August 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 (15 percent), professional services (15 percent), healthcare and pharmaceuticals (13 per cent), agriculture (8 percent), tourism, hotels and restaurants (8 percent), ICT and telecommunications (6 percent), transport and storage (6 percent), real estate (4 percent) and wholesale and retail trade (3 percent). Other sectors such as mining and energy, education, security, building and construction, and media accounted for two percent each or less.

Majority of the respondents (65 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 2022. In terms of employment, 42 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 largely unchanged on the back of a weaker Kenya Shilling, increase in fuel and electricity prices and taxes, and reduced purchasing power affecting demand for products.
- However, respondents remained optimistic that the reducing inflationary pressures, expected improved performance of the agricultural sector coupled with sector-specific opportunities could support growth.
- Optimism regarding growth prospects for the Kenyan economy improved slightly with respondents citing anticipated enhanced agricultural production, easing inflation and reduced political noise as growth-supporting factors.

- Optimism for global growth also improved slightly but respondents noted that risks to global growth remained, notably the war in Ukraine and the subdued global economic outlook.
- Respondents reported subdued business activity in 2023 Q3 compared to 2023 Q2 due to high input costs and reduced consumer demand. Nevertheless, increased business activity was reported for firms in tourism due to seasonal factors, financial services reported increased demand for credit and firms in motor vehicle manufacturing and education also reported a general increase in demand.
- Firms expect improved business activity in 2023 Q4. Seasonal factors are expected to support firms in tourism, financial services, wholesale and retail trade as well as 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.

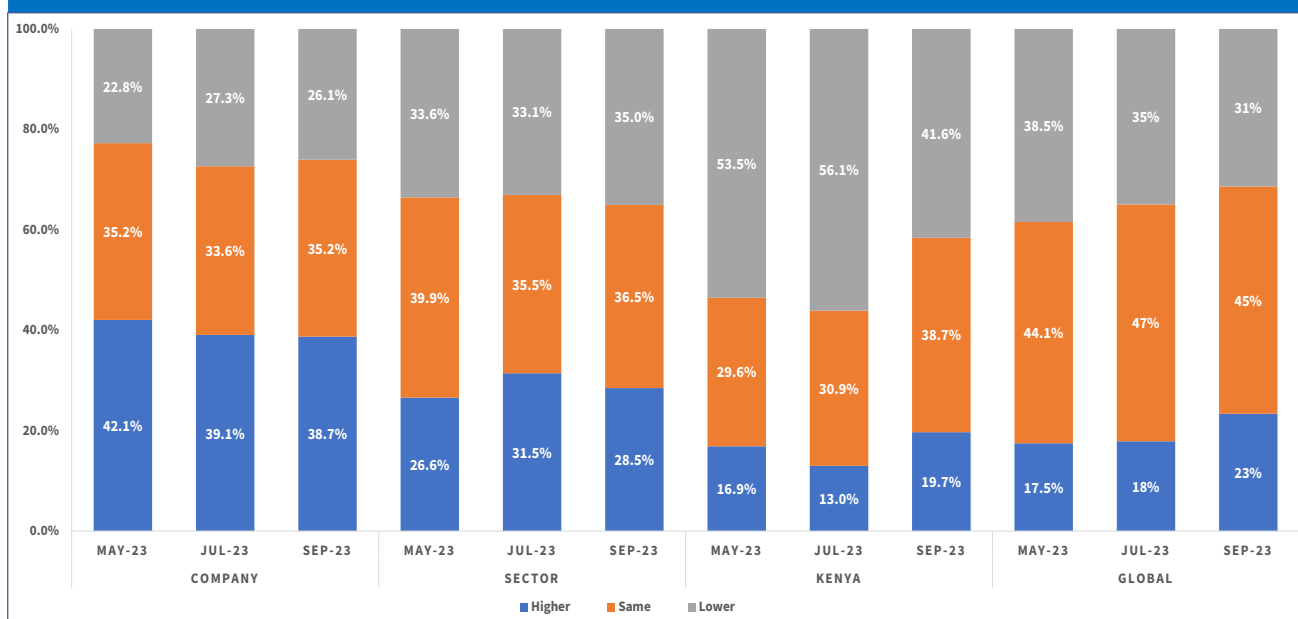
## 5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

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 largely unchanged on the back of a weaker Kenya Shilling, increase in fuel and electricity prices and taxes, and reduced purchasing power affecting demand for products. However, respondents expressed optimism that reducing inflationary pressures, expected improved performance of the agricultural sector coupled with sector-specific opportunities could support growth (**Chart 1**). Firms in the agriculture sector attributed their optimism to development of new markets and unique new products that would create new opportunities. Firms also reported expected increased production due to forecasted adequate rainfall in the next season.

Firms in financial services reported continued demand for their services while firms in the ICT sector reported opportunities for growth owing to the government focus on digitization.

Optimism regarding growth prospects for the Kenyan economy improved slightly with respondents citing anticipated enhanced agricultural production, easing inflation and reduced political noise as growth-supporting factors. Optimism for global growth remained largely the same with respondents noting

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



that risks to global growth remained unchanged, notably the war in Ukraine and the subdued global economic outlook.

The agriculture sector continued to report strong optimism for growth prospects of their companies in the latest Survey compared to other sectors (**Chart 2**). Respondents attributed their optimism to the anticipated increased agricultural production, improving demand in global markets and firm-specific growth strategies. Nevertheless, respondents decried the high cost of doing business.

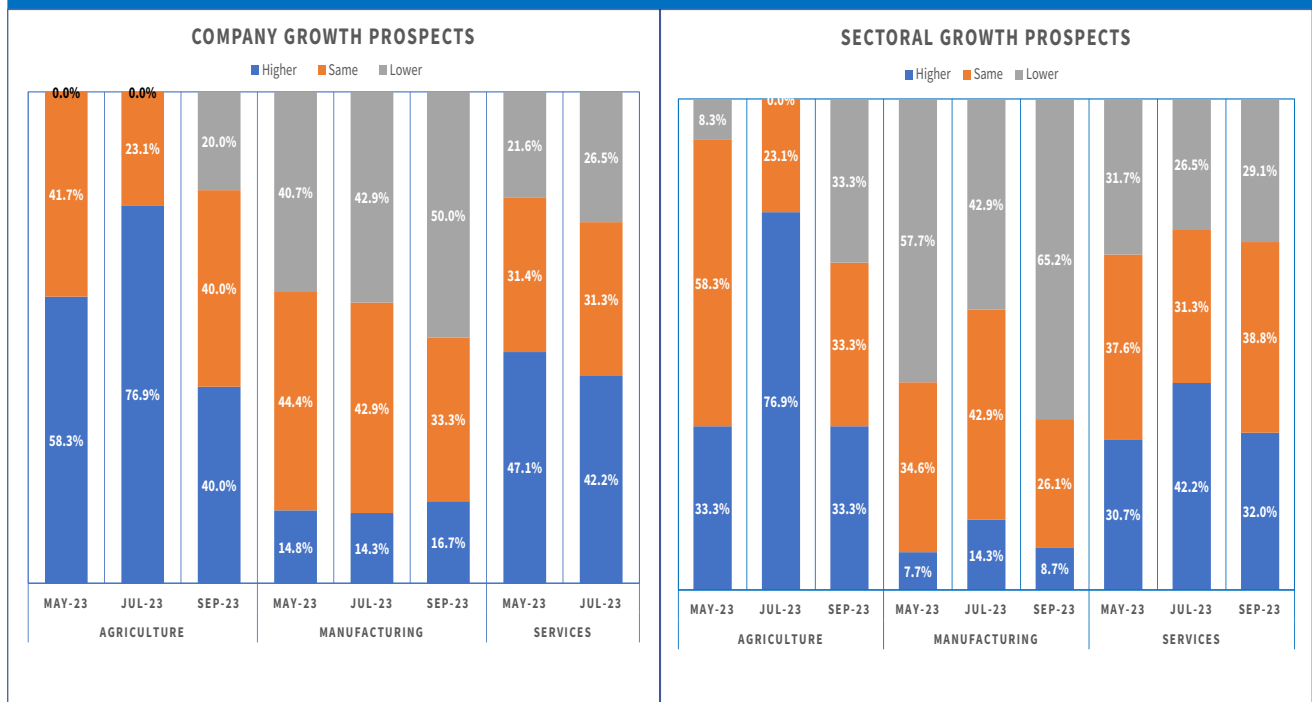
Majority of respondents in the manufacturing sector, reported lower or the same growth prospects for their company and sector over the next 12 months. Respondents continued to cite the weaker Shilling and increased costs of fuel and electricity as constraining factors. Respondents also highlighted

that consumer demand remained low. 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 increased trade between Kenya and other countries, which was providing growth opportunities for the sector. Firms in financial services reported that the local market was also maturing in terms of financial needs, leading to more growth.

On the global economy, optimism improved slightly but respondents noted that risks remained, notably the lingering war in Ukraine and the subdued global economic outlook.

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



## 6. BUSINESS ACTIVITY IN 2023 Q3 COMPARED TO 2023 Q2

The Survey sought CEOs perceptions on business activity in the third quarter of 2023 compared to the second quarter of 2023. Respondents reported subdued business activity due to high input costs and reduced consumer demand. Demand/orders, production volumes and sales were lower or the same for majority of firms **(Chart 3)**. Across all sectors, firms reported persistence of elevated prices of goods and services purchased.

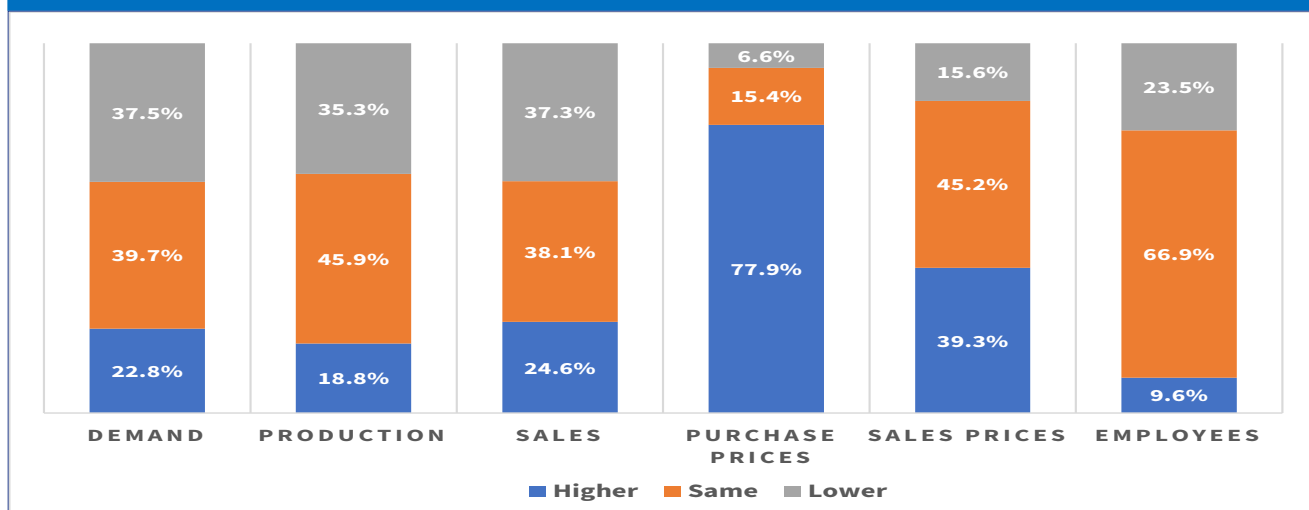
Firms in the agriculture sector reported increased demand and production volumes due to favorable

weather conditions. Additionally, exports were boosted by increased demand, from specific markets. Nevertheless, prices of goods remained elevated due to increased production costs.

Manufacturing sector firms reported reduced demand for products, hence reduced production volumes and more idle capacity than anticipated. Nevertheless, firms anticipate a pickup in production in the last quarter of the year.

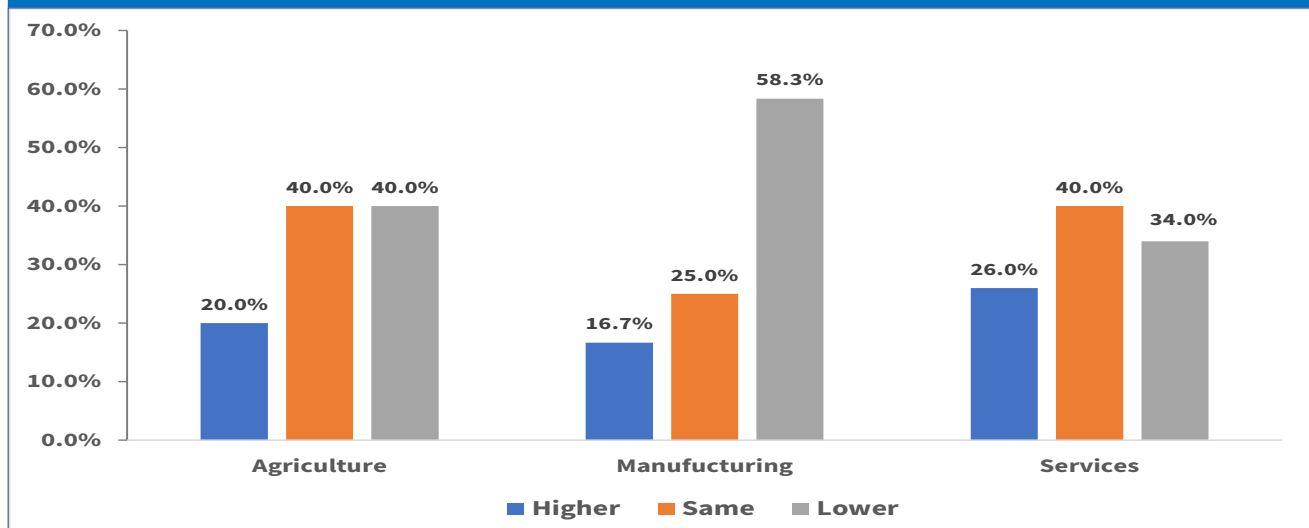
In the services sector, business activity remained muted, with prices for key inputs remaining elevated. Some firms also reported struggling to preserve their client base as they contended with tight profit margins.

**Chart 3: Business Activity in 2023 Q3 Compared to 2023 Q2 (percent of respondents)**

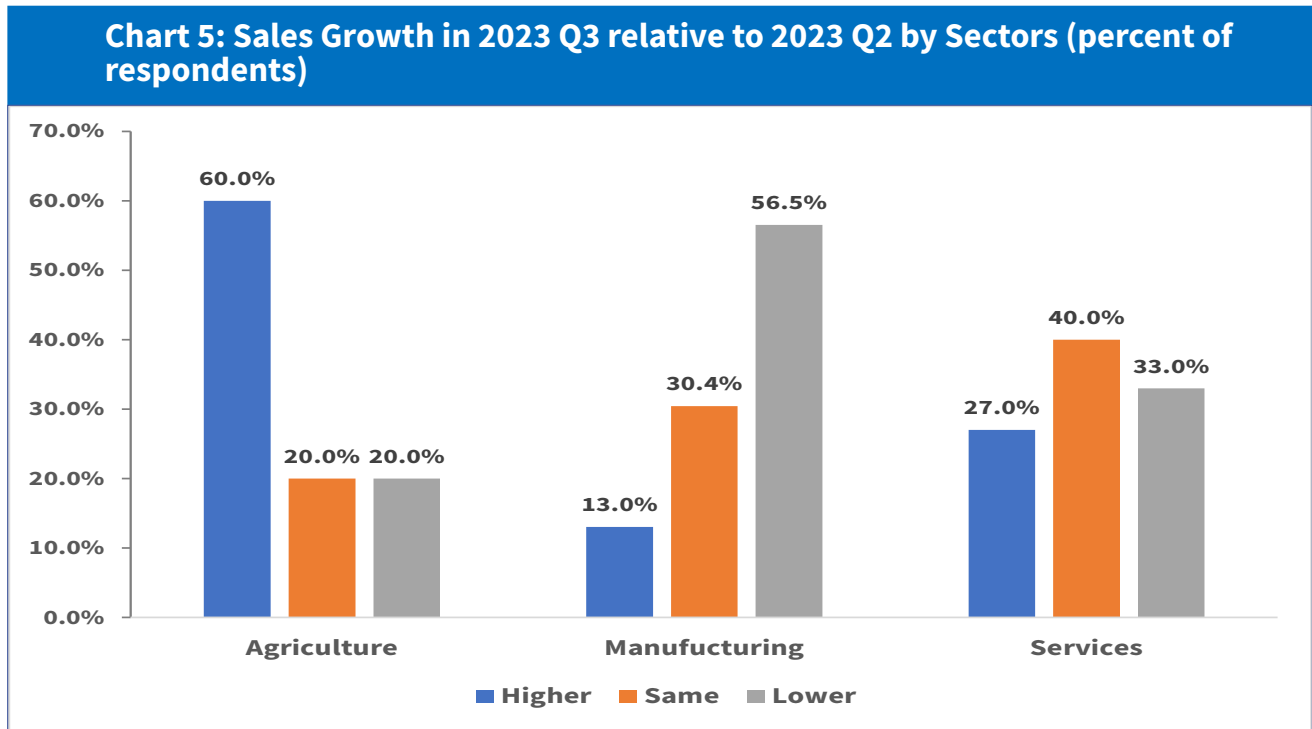


In terms of sectoral demand in the third quarter of 2023, majority of firms in agriculture and services sectors reported same or lower demand/orders. For the manufacturing sector however, majority of respondents reported lower demand **(Chart 4)**.

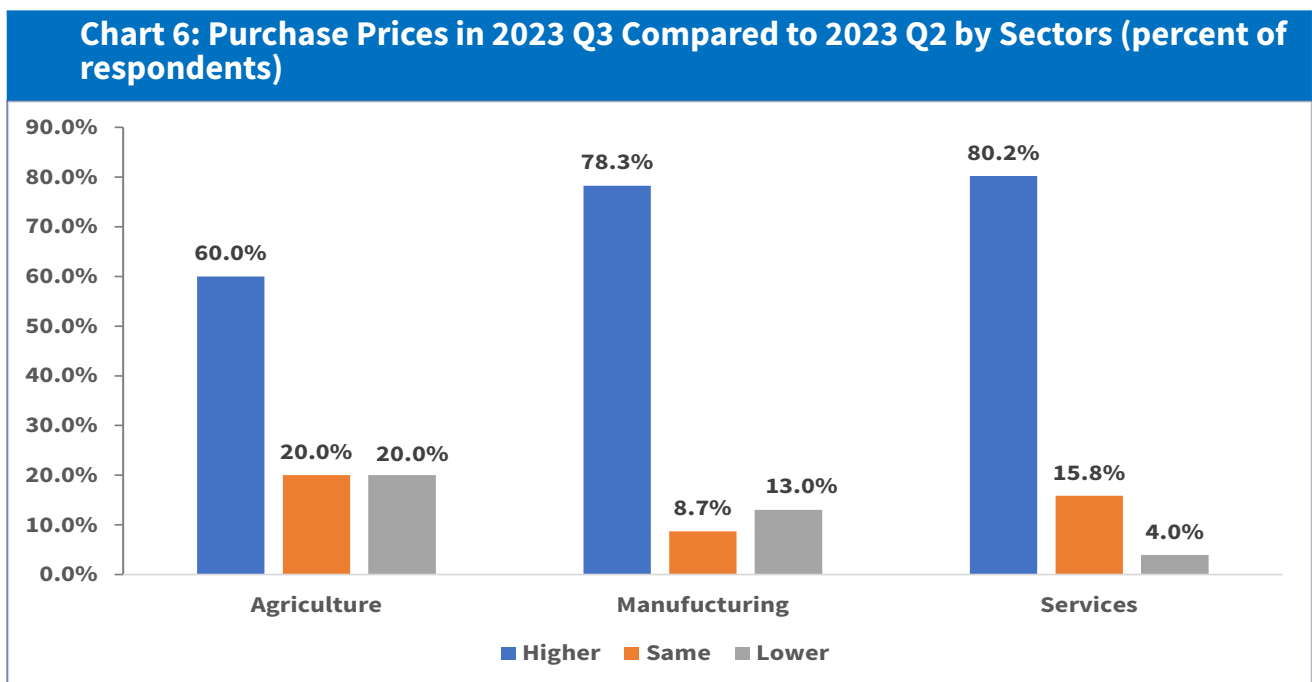
**Chart 4: Demand/Orders in 2023 Q3 Relative to 2023 Q2 by Sectors (percent of respondents)**



Agriculture sector firms reported higher sales growth compared to other sectors (**Chart 5**). This was attributed to improved agricultural production and demand for exports.



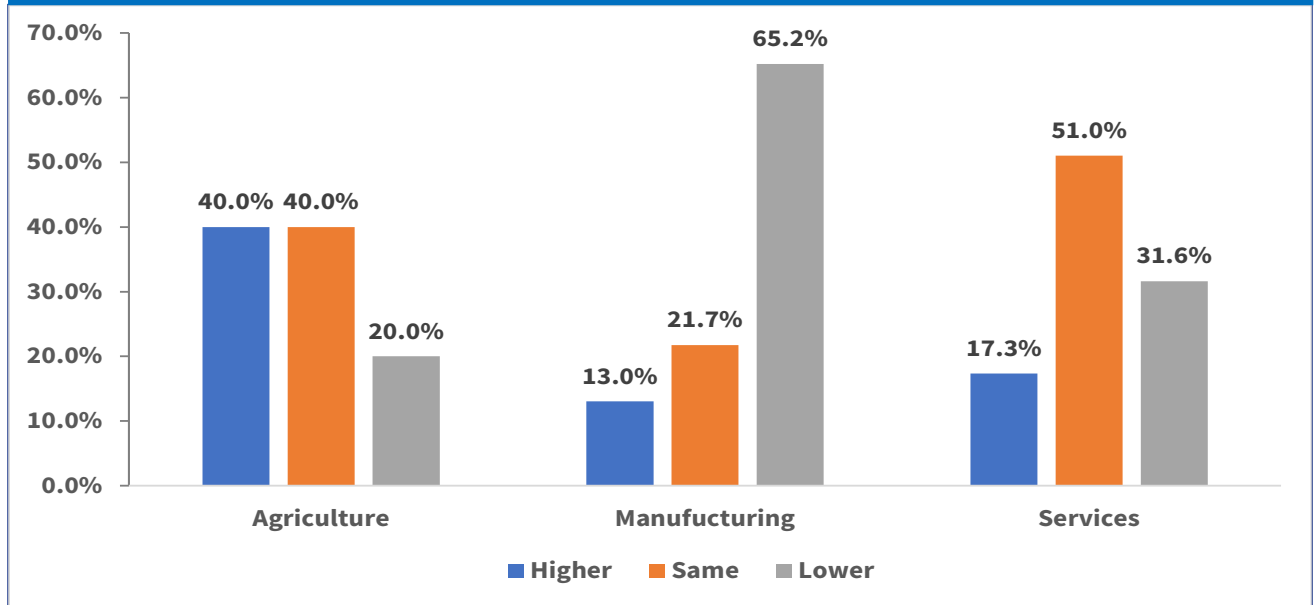
High input costs and the impact of a weaker Shilling continued to affect purchase prices (**Chart 6 and Annex 1**).





Production volumes remained largely the same for majority of respondents in the agriculture sector, in anticipation of the harvest season. 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 Q3 Compared to 2023 Q2 by Sectors (percent of respondents)**

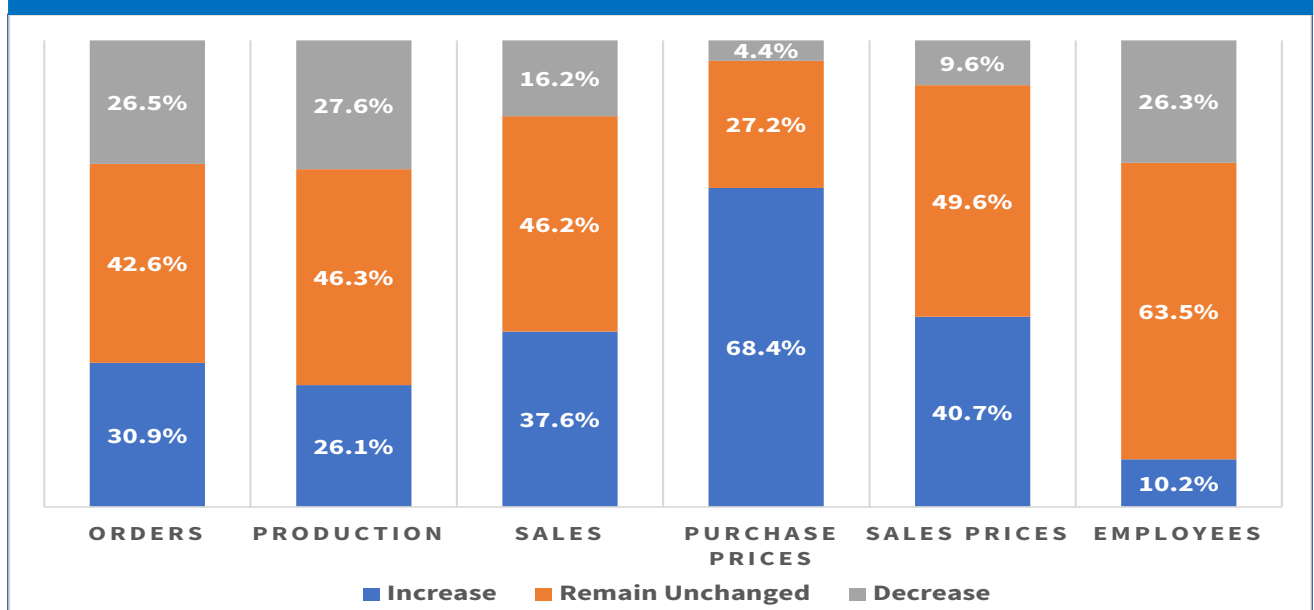


## 7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q4 COMPARED TO 2023 Q3

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

activity is expected to improve in Q4 with majority of respondents reporting increased or unchanged volumes of business activity (**Chart 8**).

**Chart 8: Outlook on Business Activity in 2023 Q4 compared to 2023 Q3 (percent of respondents)**



Firms in the agriculture sector expect that business activity will remain largely the same. Seasonal factors are likely to affect demand in critical export markets. Further, firms are concerned about the impending El Nino rains, which are likely to impact production with crops being affected by pests and diseases.

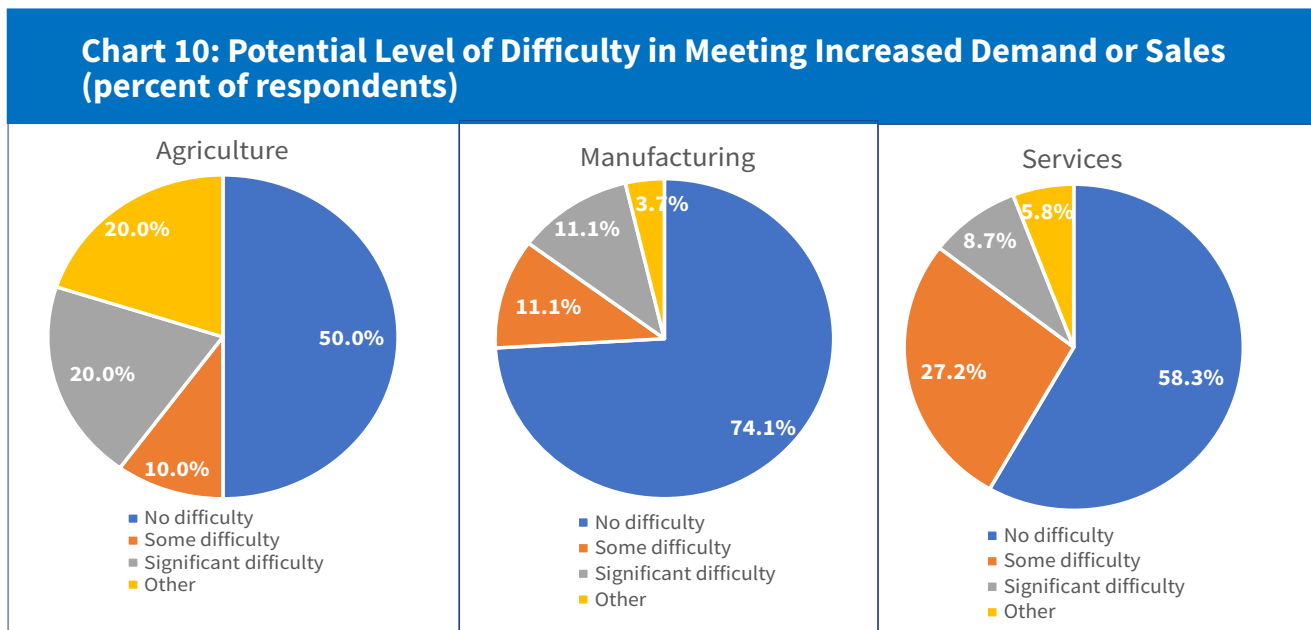
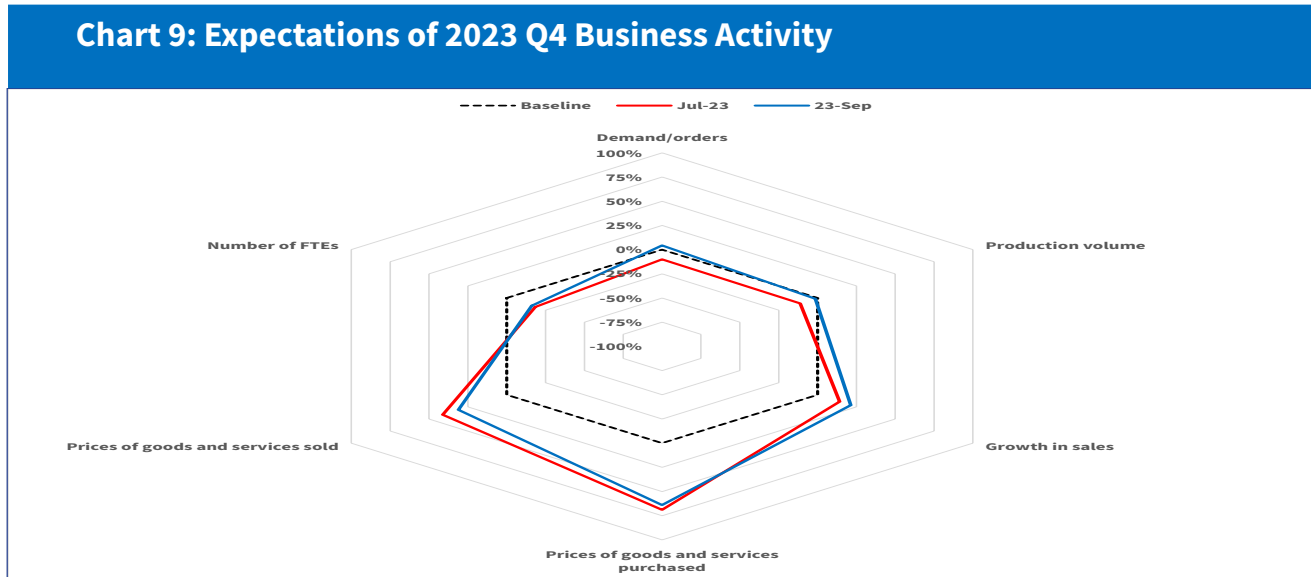
Businesses in the manufacturing sector expect a marginal improvement in the business conditions. Firms expect increased demand due to seasonal factors, but price increases could dampen demand. Consequently, the priority for businesses will be sustained volume growth while keeping output prices largely at the same level.

In the services sector, firms expect increased business activities due to a rise in demand for products and creation of new partnerships with counterparties in the industry. Firms in financial services, wholesale and retail and tourism expect increased demand for

their services, due to seasonal factors. 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 reduced orders and customer inability to bear higher prices, thus difficulty to operate at full capacity. Other reasons cited included low turnaround time and low revenues, unpredictability of the business environment and constrained cash flow.

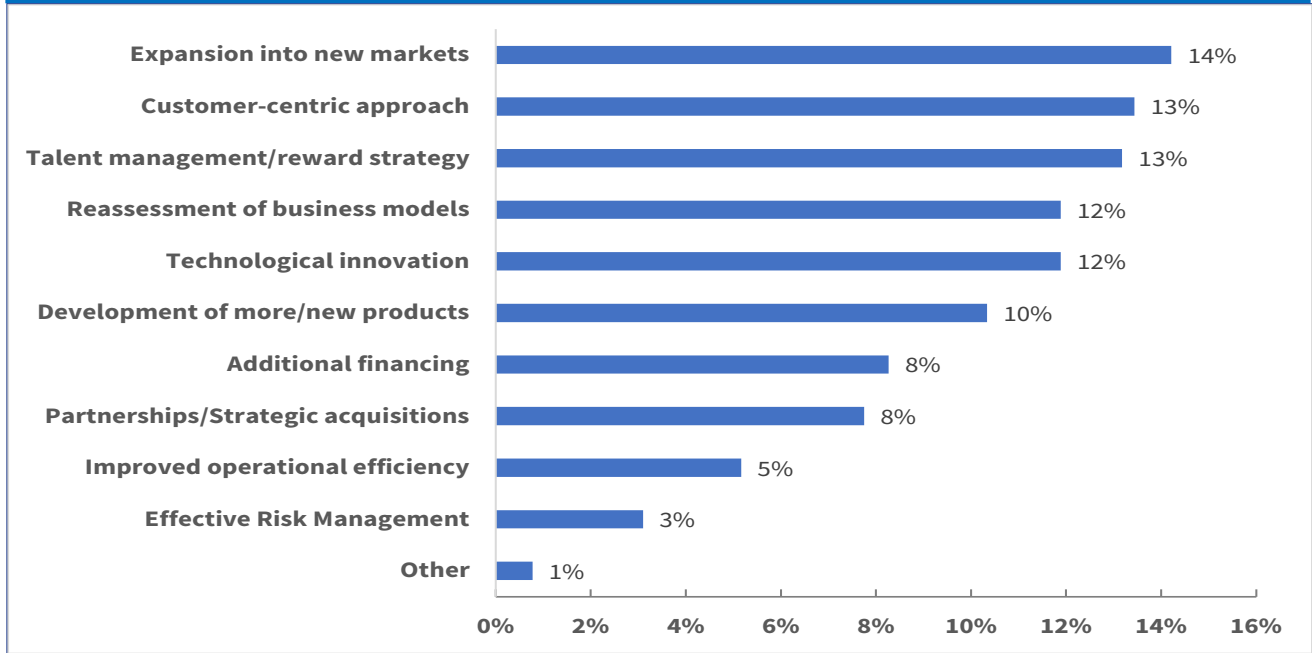


## 8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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.

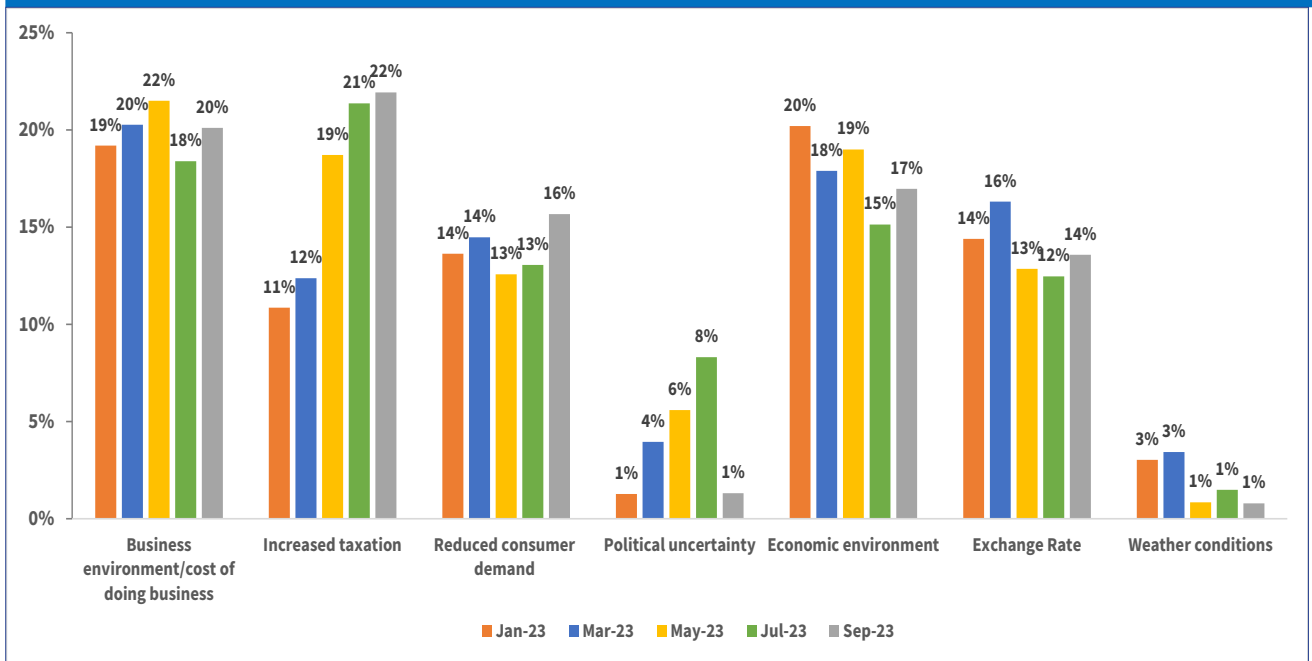
The results show that expansion into new markets, customer centricity and talent management are the key drivers of firms' growth over the next one year **(Chart 11)**.

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



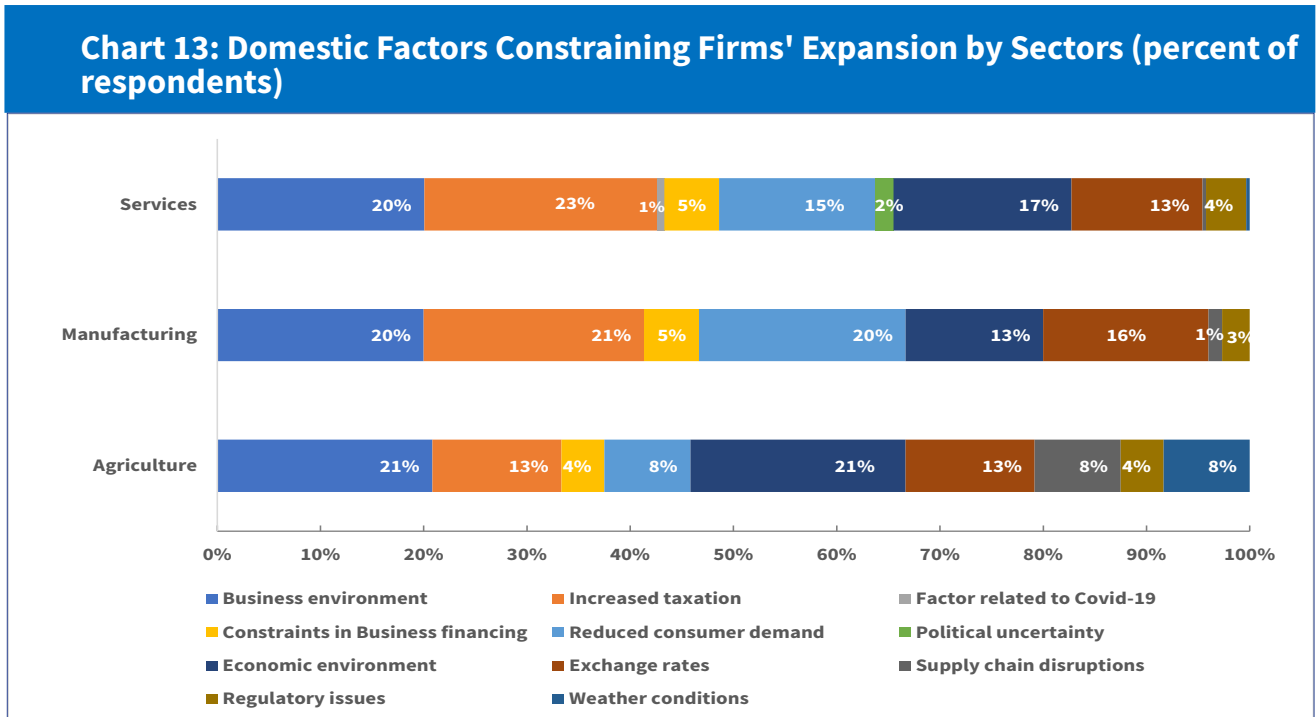
In terms of domestic factors that could constrain their growth, respondents continued to highlight increased taxation, the business environment (cost of doing business) and the economic environment (high inflation). While concerns on the performance of the Kenya Shilling edged up, concerns over political noise have reduced significantly **(Chart 12)**.

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



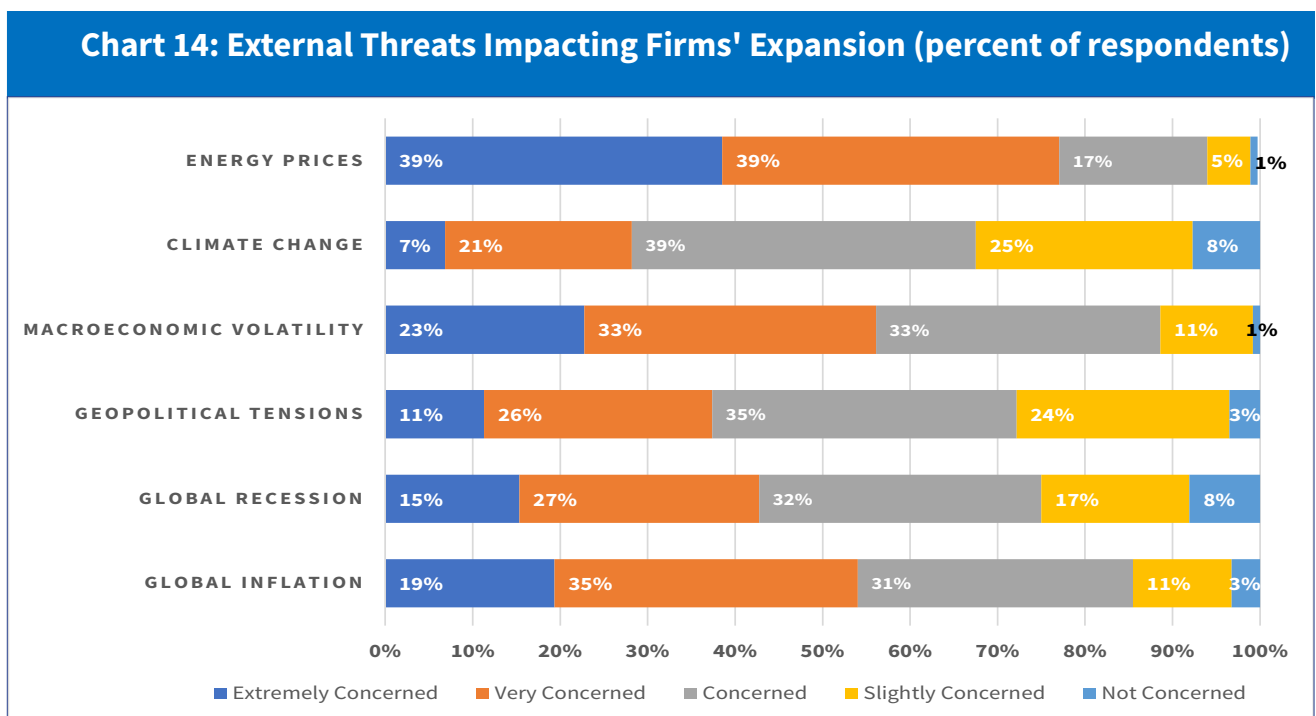
The business environment and increased taxation was of greater concern for firms in the services and manufacturing sectors. Firms in the agriculture sector on the other hand were equally concerned about the business environment and the economic

environment. Other highly ranking concerns were the exchange rate and reduced consumer demand. Supply chain disruptions and weather conditions, were also important for agriculture sector firms (**Chart 13**).

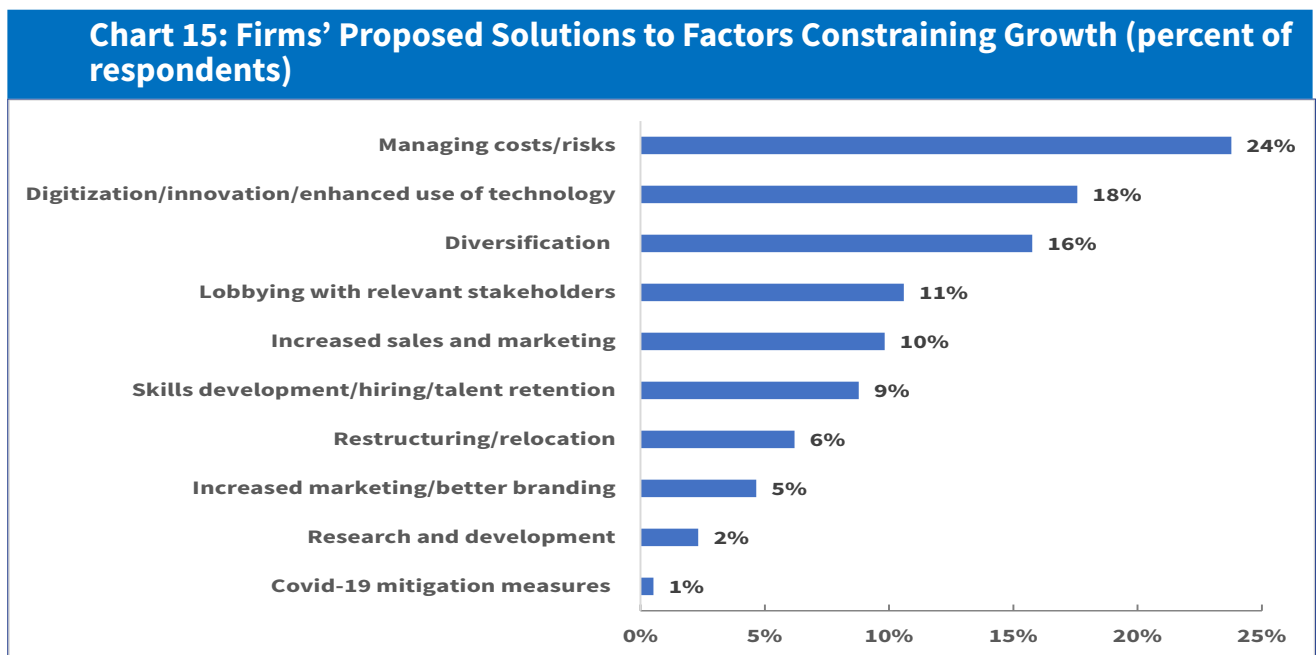


The Survey also sought to establish the top external (non-domestic) threats impacting businesses. Respondents were most concerned about energy prices, macroeconomic volatility and global inflation (**Chart 14**). Agriculture sector firms were

most concerned about climate change and energy prices while manufacturing and services sector firms were most concerned about energy prices and macroeconomic volatility.

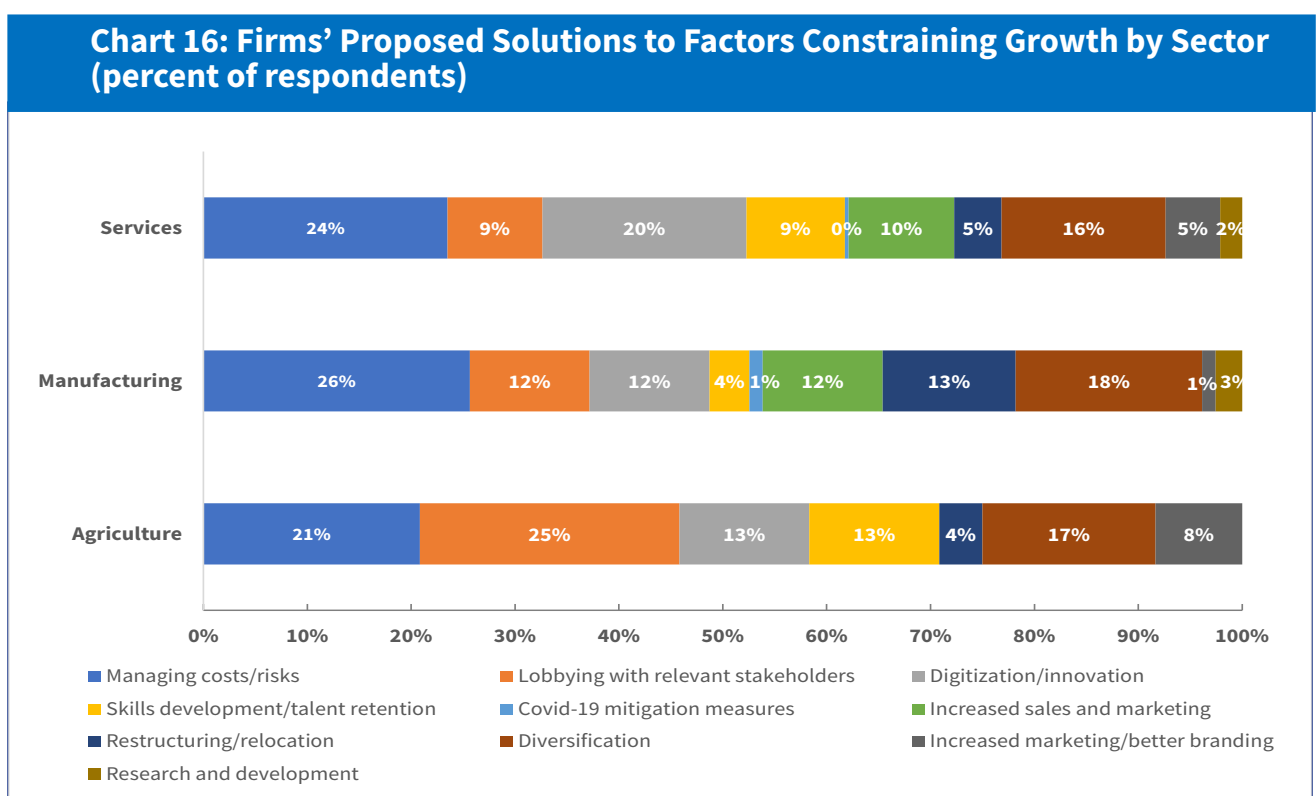


To mitigate the factors constraining growth/expansion, firms proposed various solutions including management of costs and risks, digitization of their operations, and diversification (**Chart 15**).



Other important factors for respective sectors were increased sales and marketing (services and manufacturing sector firms), and lobbying with

relevant stakeholders for agriculture sector firms (**Chart 16**).

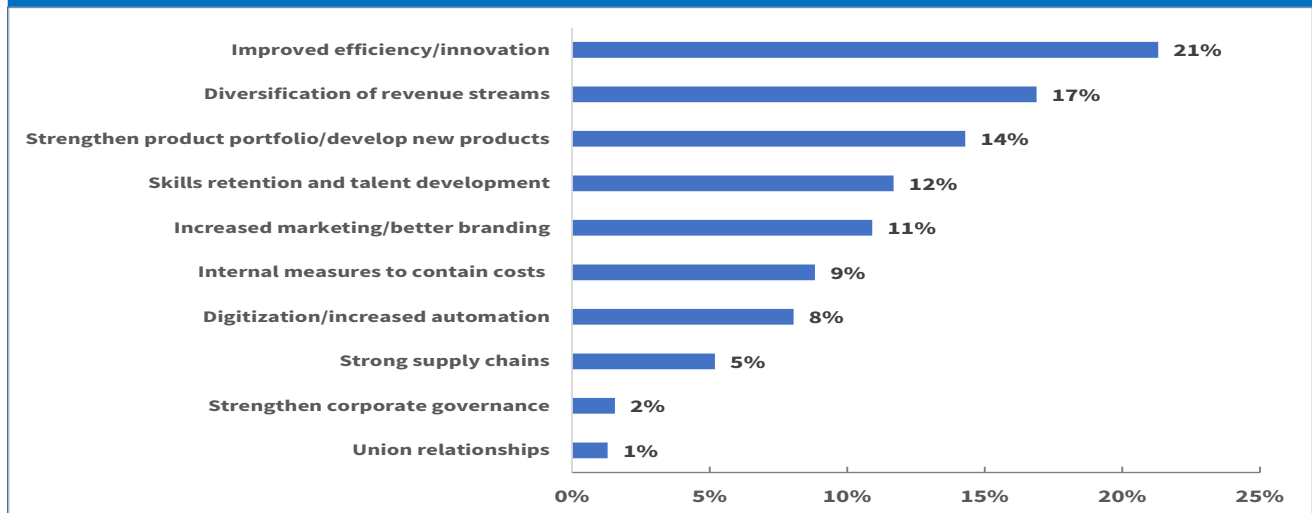


## 9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

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. Skills retention/talent development 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)**

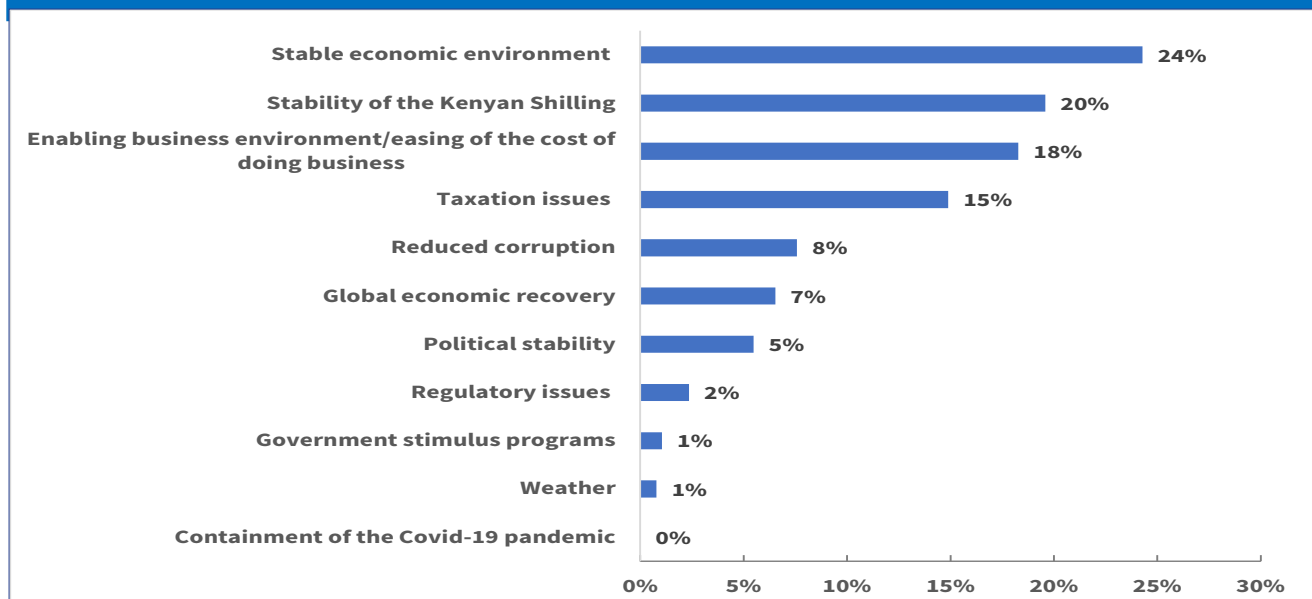


A sectoral analysis of the identified internal factors revealed that internal measures to control costs and increased marketing/better branding were other important factors for all sectors.

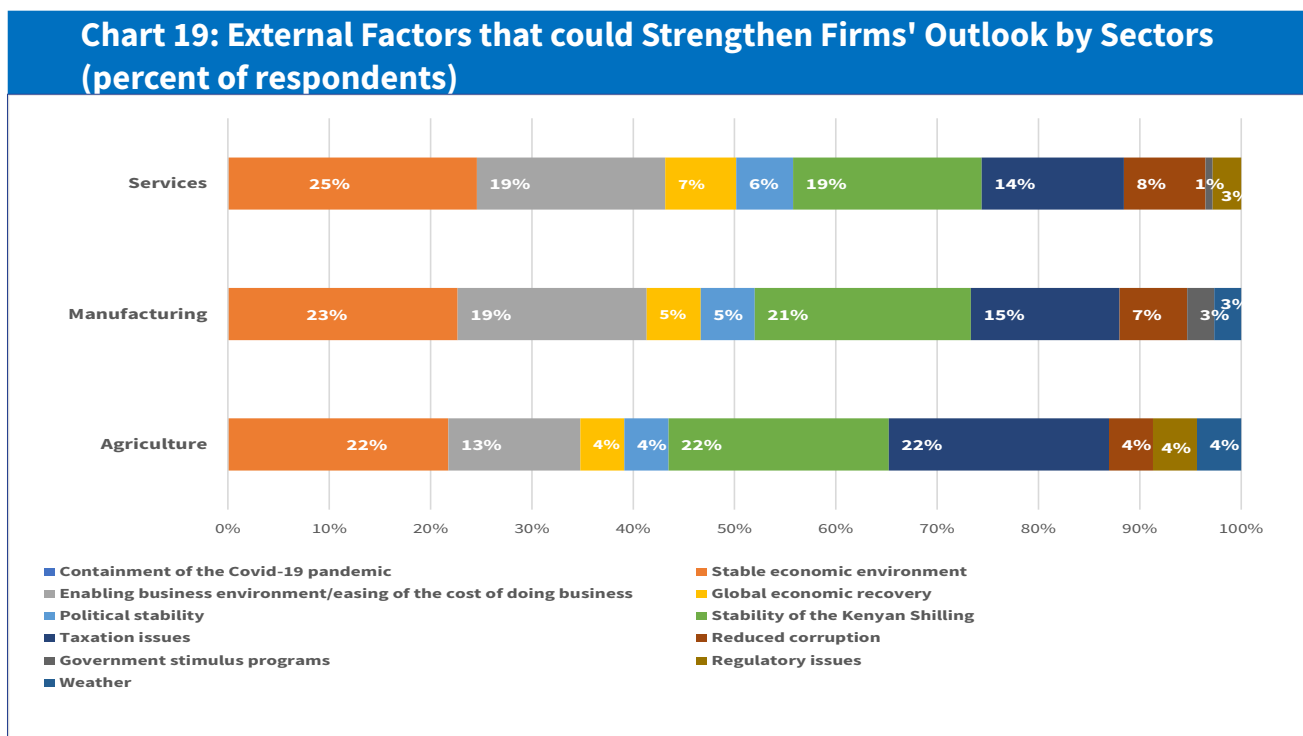
an enabling business environment as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months (**Chart 18**).

Firms continued to identify a stable economic environment, stability of the Kenyan Shilling and

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



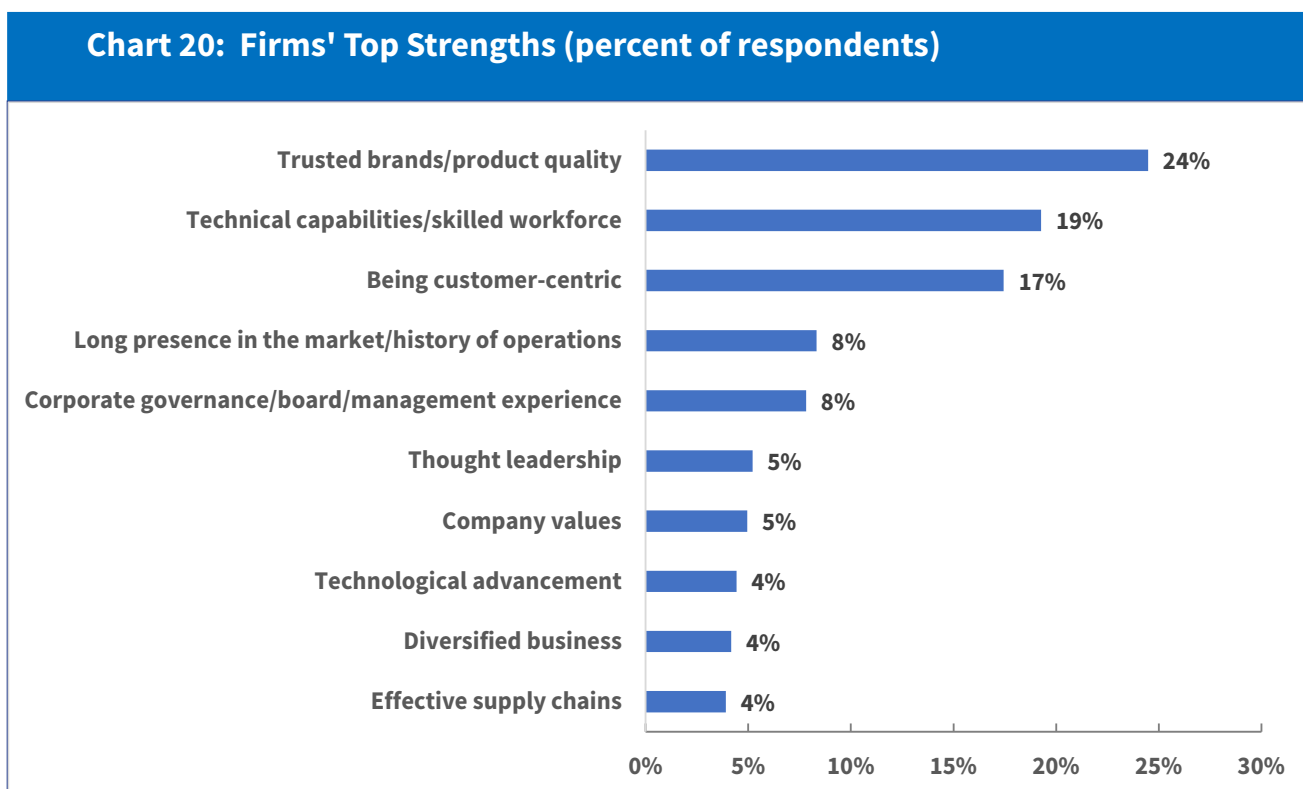
Besides the top three factors identified in **Chart 18**, taxation issues and global economic recovery were equally important factors for all sectors (**Chart 19**).



## 10. TOP COMPANY STRENGTHS

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

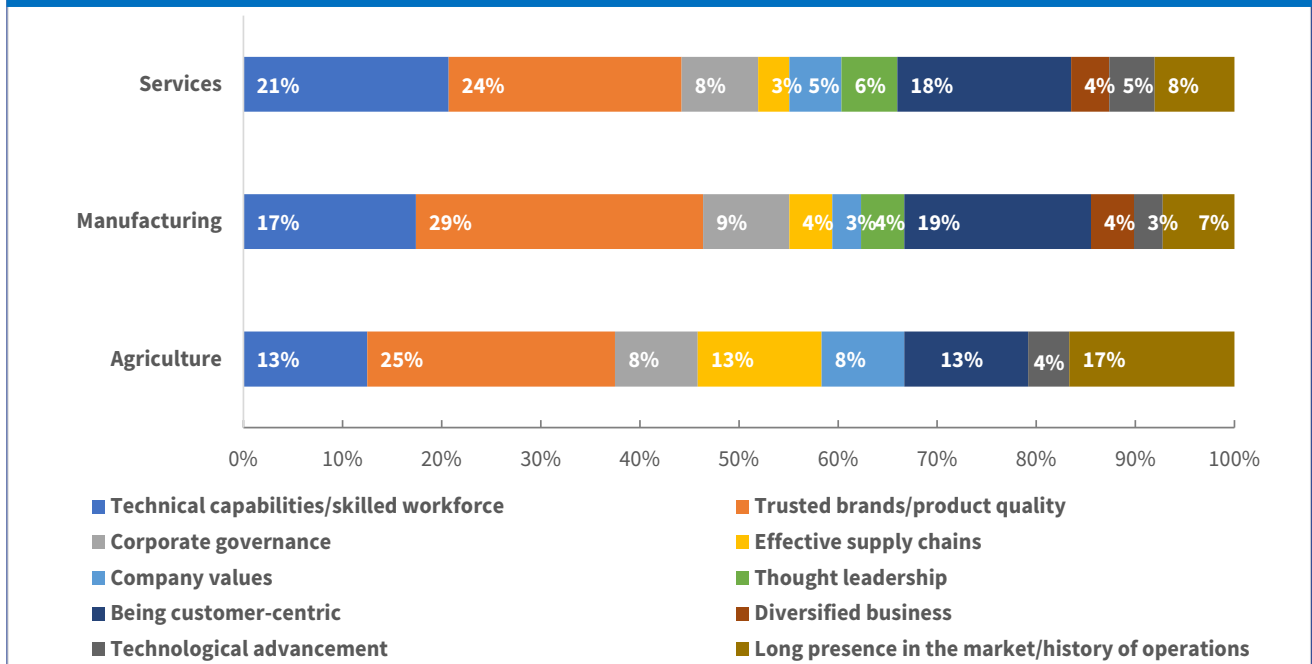
capabilities and customer centricity as their top strengths. Equally important is their history/length of presence in the market (**Chart 20**).



At the sector level, besides the factors identified in **Chart 20**, good corporate governance was also a significant factor for firms in all sectors. Effective

supply chains were also important for agriculture sector firms (**Chart 21**).

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

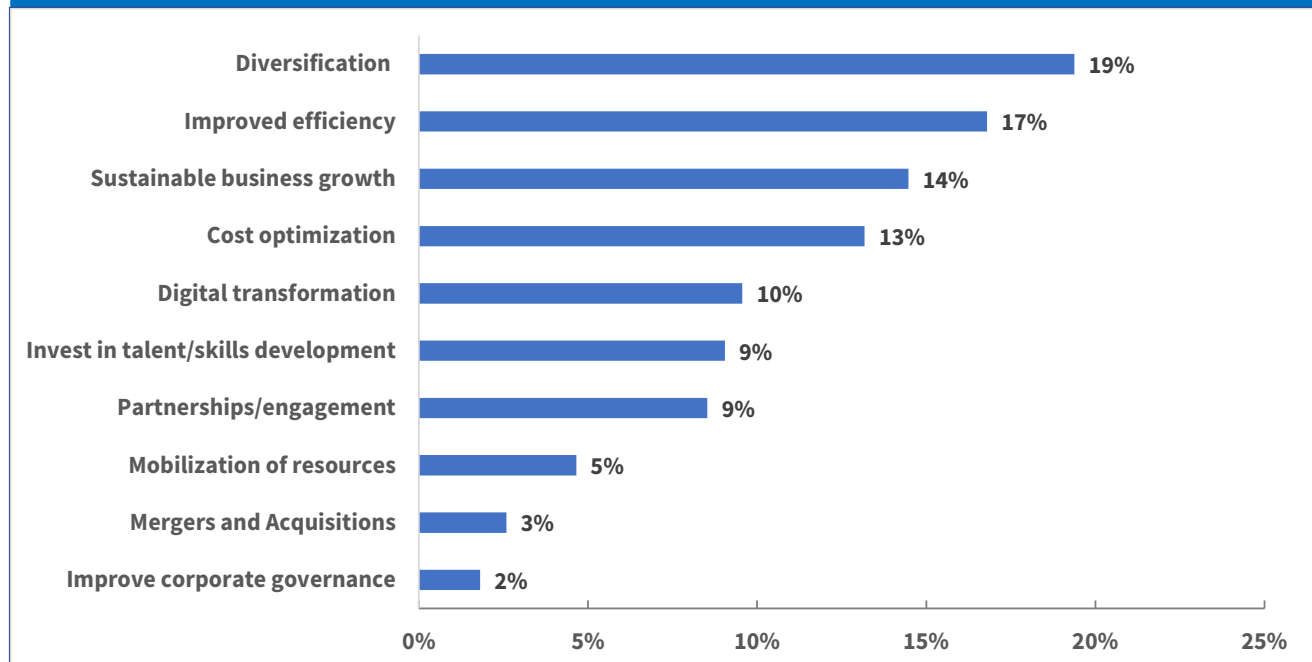


## 11. STRATEGIC PRIORITIES

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

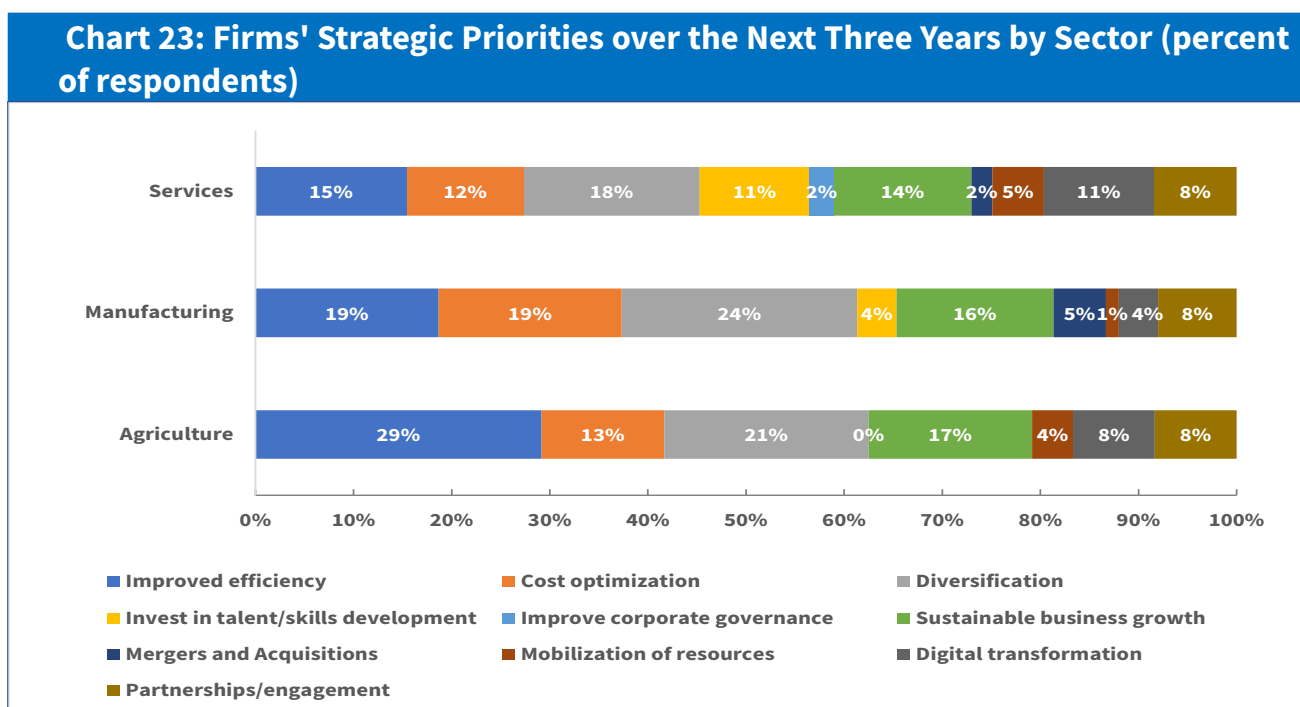
efficiency, optimize costs and grow their businesses sustainably (**Chart 22**).

**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 investing in talent and skills development as another important factor (**Chart 23**).



## 12. CONCLUSION

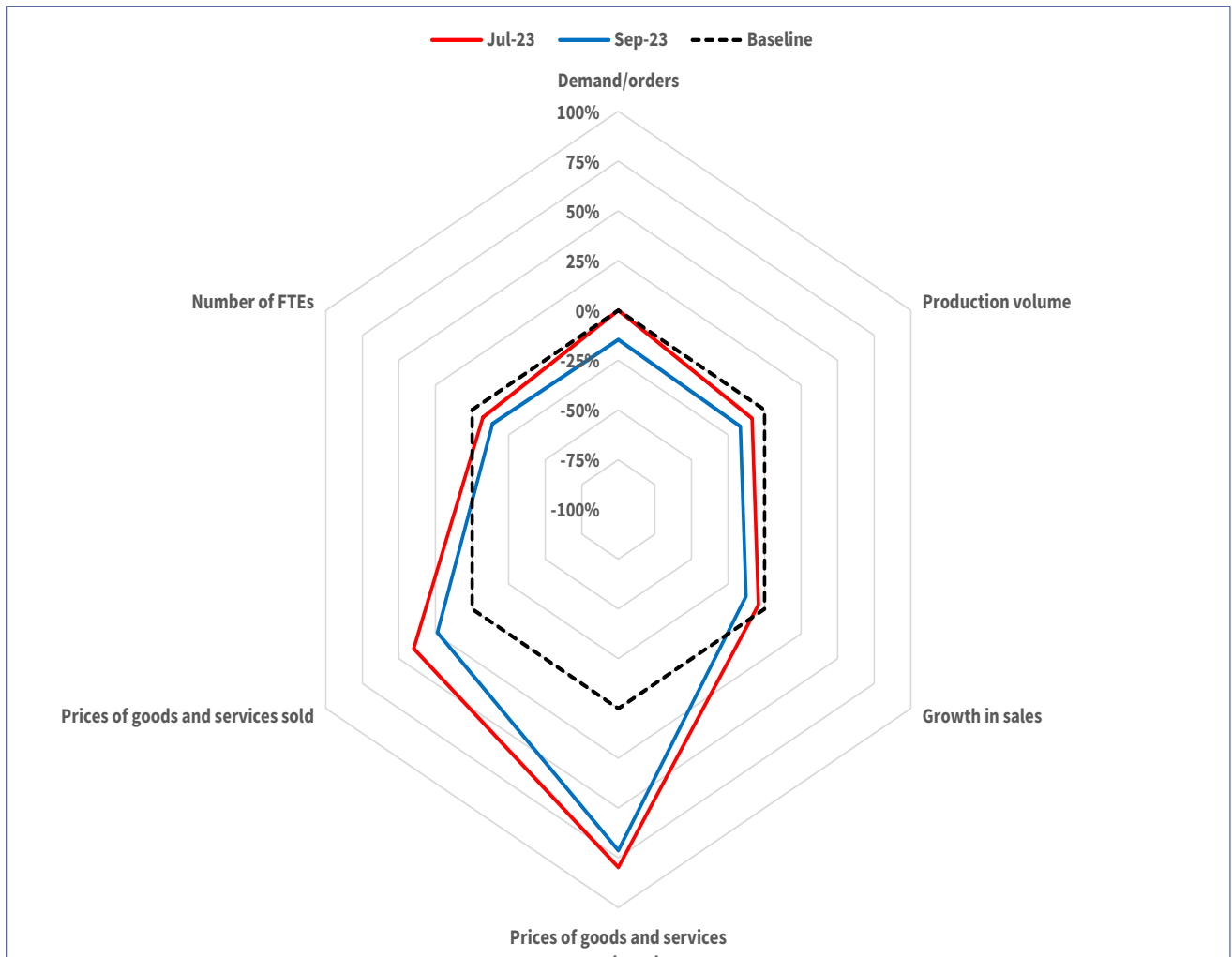
The September 2023 CEOs Survey revealed that company, sectoral and global growth prospects in the next 12 months remain largely unchanged. However, prospects for improved agricultural production and easing inflation boosted optimism for growth of the Kenyan economy. On the prospects for global growth, respondents expect these to improve slightly, but risks to global growth remain, in particular the war in Ukraine and the subdued global economic outlook.

Business activity in 2023 Q3 remained subdued compared to 2023 Q2 due to high input costs and reduced consumer demand. Nevertheless, increased business activity was reported for some firms especially those in tourism, financial services, motor vehicle manufacturing and education. Surveyed firms expect improved business activity in 2023 Q4 on account of seasonal factors.

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 2023.

# ANNEX 1: 2023 Q3 PURCHASE PRICES







**Central Bank of Kenya**

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