



Central Bank of Kenya

Chief Executive Officers' (CEOs) Survey

January 2024

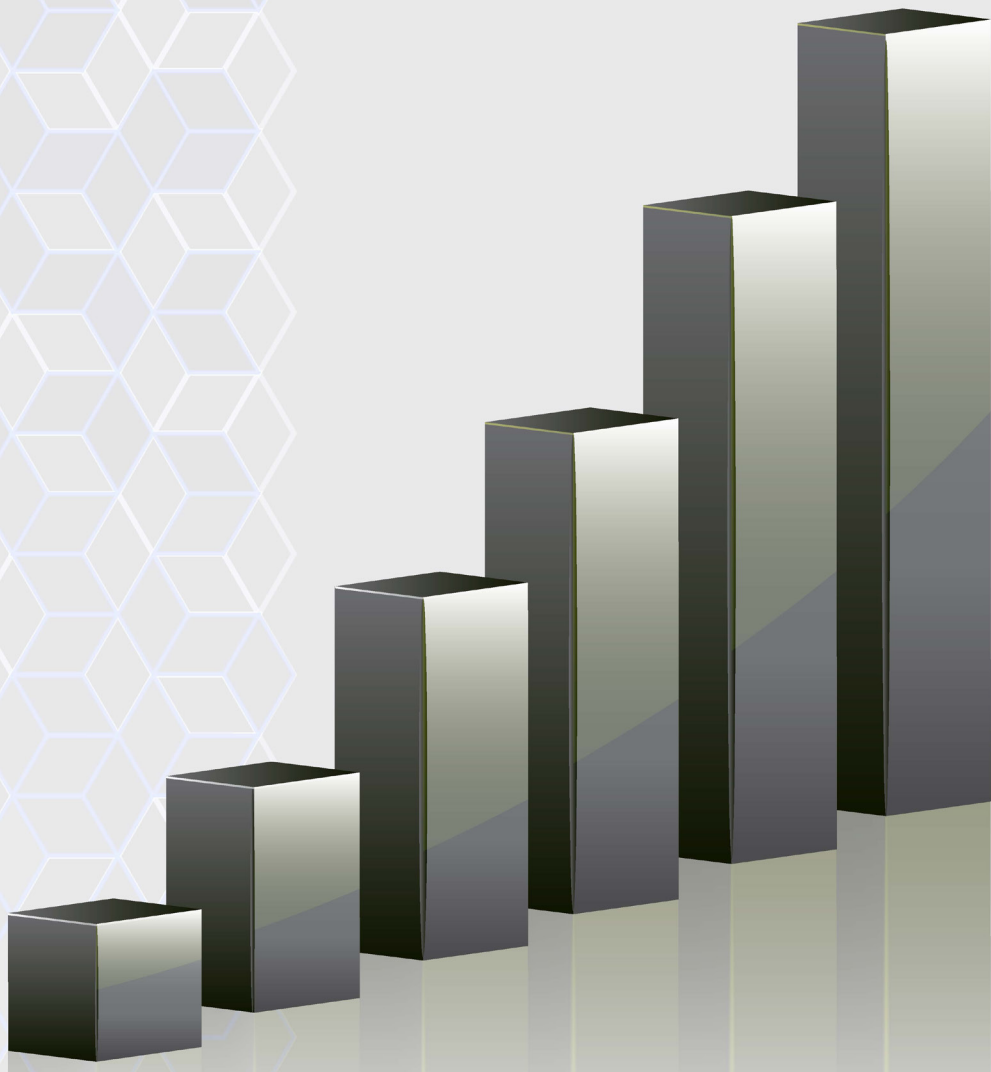


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1. BACKGROUND

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 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 January 12 and 24, 2024. 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 (January – December 2024), as well as the strategic directions and solutions to address their key constraining factors over the medium term (January 2024 – December 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: financial services (15 percent), manufacturing (14 percent), agriculture (14 percent), professional services (12 percent), healthcare and pharmaceuticals (10 percent), tourism, hotels and restaurants (10 percent), ICT and telecommunications (5 percent), transport and storage (5 percent), wholesale and retail trade (4 percent), real estate (4 percent) and mining and energy (3 percent). Other sectors such as, 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 seven 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 29 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, buoyed by sector-specific opportunities.
- The Survey revealed stronger optimism regarding growth prospects for the Kenyan economy on account of improved agricultural production.
- Despite uncertainties arising from continued geopolitical tensions and a modest global economic outlook, optimism for global growth improved with respondents citing the easing of global inflation as the main reason for their optimism.
- Respondents reported mixed business activity in 2023 Q4 compared to 2023 Q3. Increased business activity was reported for firms in tourism due to seasonal factors, with financial and professional

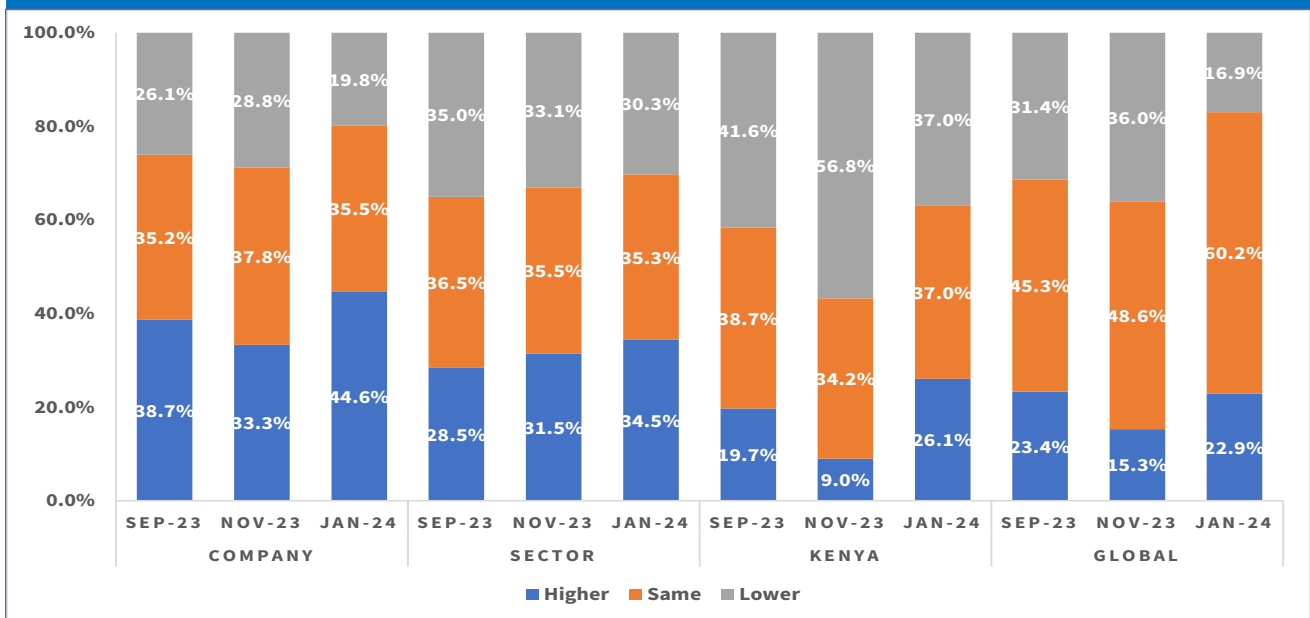
services firms also reporting increased demand for their services.

- Firms expect improved business activity in 2024 Q1. Seasonal factors are expected to support firms in tourism, financial services and professional services sectors.
- Talent management, customer centricity and expansion into new markets were identified as the key drivers of firms' growth.
- The business environment (cost of doing business), the economic environment (high inflation and the weakening Shilling) and increased taxation continue to be identified as domestic factors that could constrain firms' growth in the near term. Externally, firms highlighted energy prices, macroeconomic volatility and geopolitical tensions, as threats to their expansion. Firms expect to mitigate these constraining factors through management of costs and risks, digitisation of their operations and diversification of their businesses.
- A stable macroeconomic environment, a stable Kenya Shilling and an enabling business environment were highlighted as factors that could strengthen firms' outlook in 2024.

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, buoyed by sector-specific opportunities (**Chart 1**). Firms in the real estate sector expect growth to be supported by the Government focus on the affordable housing project while tourism sector firms are on a continued post-COVID growth trajectory. Firms in financial and professional services expect continued demand for their services to be driven by increased opportunities in the region. The rollout of the universal healthcare (UHC) program is expected to support investments in healthcare, thereby presenting increased prospects for growth in the next 12 months. That notwithstanding, respondents remained concerned about the continued depreciation of the Kenya Shilling, high interest rates which are constraining access to credit and the introduction of new taxes which are likely to exacerbate the cost of doing business.

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



The Survey revealed stronger optimism regarding growth prospects for the Kenyan economy on account of improved agricultural production. Respondents expect the agriculture sector to continue performing well due to forecasted favourable weather conditions.

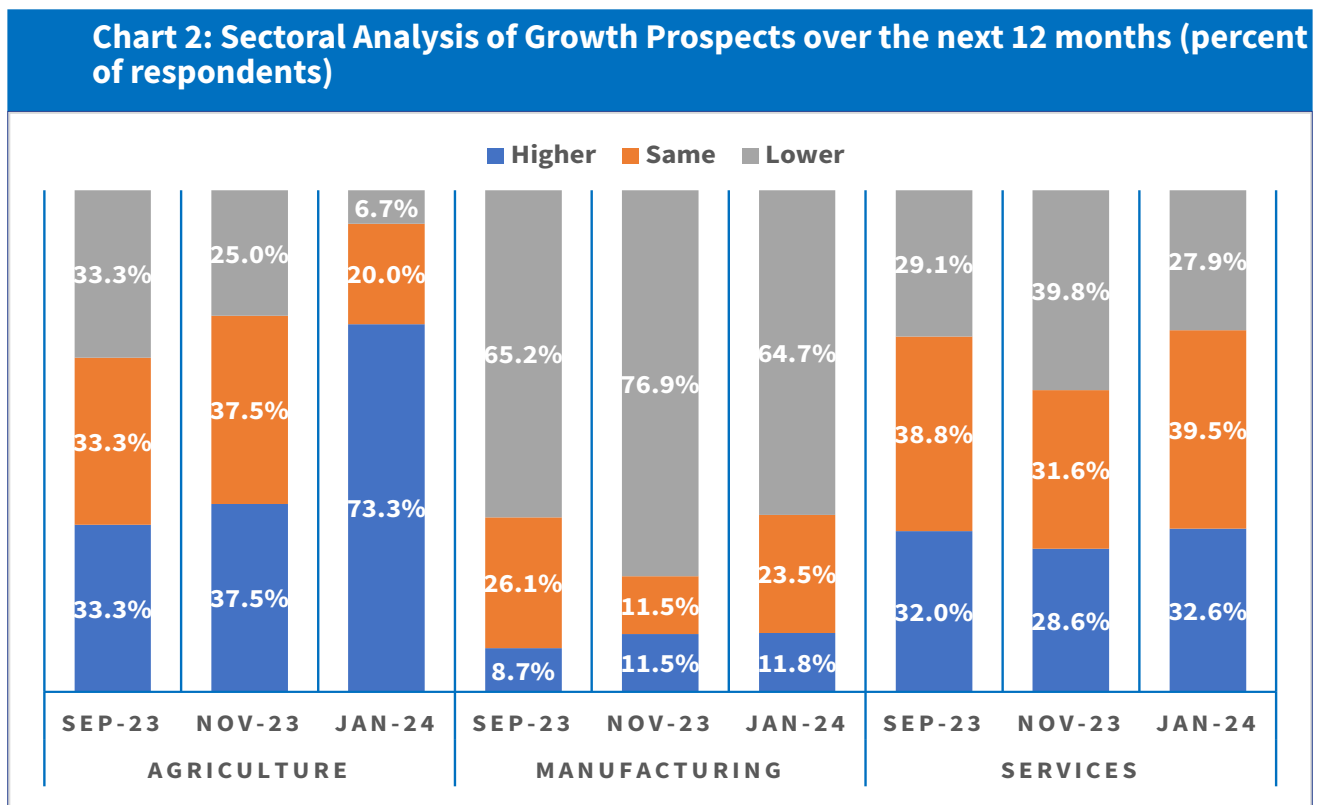
Despite uncertainties arising from continued geopolitical tensions and a modest global economic outlook, optimism for global growth improved with respondents citing the easing of global inflation as the main reason for their optimism.

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 improved output on account of favourable weather conditions.

Majority of respondents in the manufacturing sector, reported lower or the same growth prospects for their company and sector over the next 12 months. Firms continue to experience the twin challenges of high input costs and reduced consumer demand which has been highlighted in past Surveys. Nevertheless, respondents noted that improved agricultural production would support sector performance.

In the services sector, growth prospects over the next 12 months are driven by sector-specific opportunities and strategies for growth put in place by individual firms.



6. BUSINESS ACTIVITY IN 2023 Q4 COMPARED TO 2023 Q3

The Survey sought CEOs perceptions on business activity in the fourth quarter of 2023. Respondents reported mixed business activity in 2023 Q4 compared to 2023 Q3 (**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 increased demand, production, and sales following adequate rainfall. Correspondingly, the number of full-time employees increased. Nevertheless, respondents decried the depreciation of the Kenya Shilling which had led to sharp increases in the cost of acquiring key equipment and machinery.

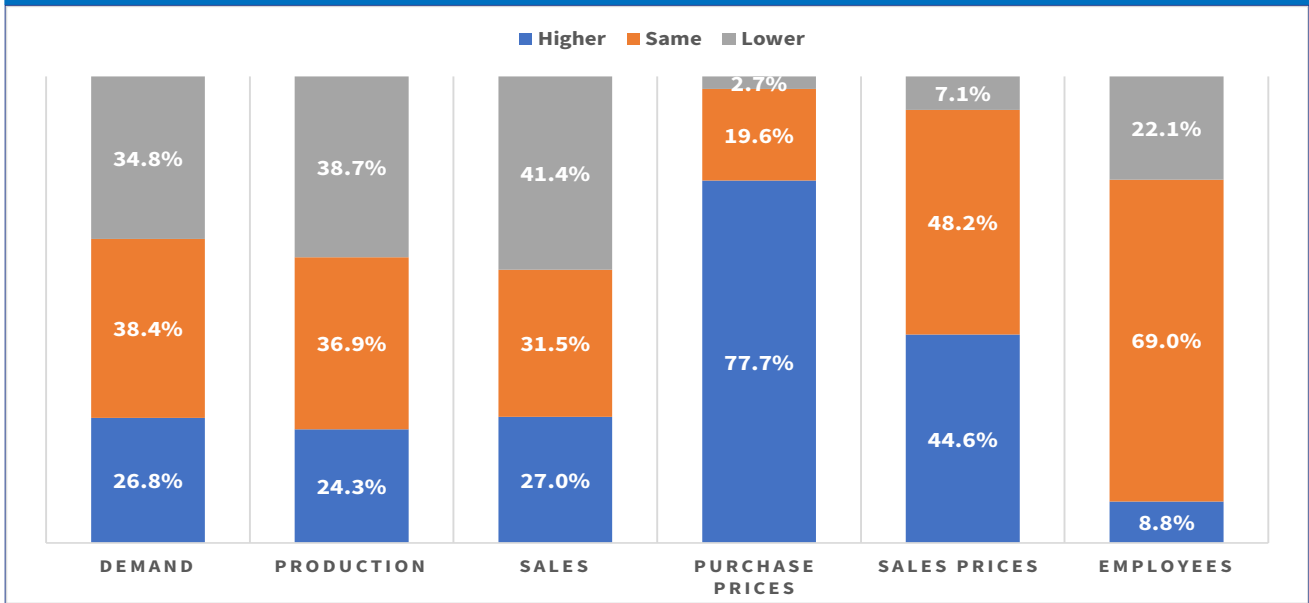
Manufacturing sector firms reported that business activity remained sluggish, moderately supported

by the festive season, with depressed consumer demand and high cost of doing business continuing to weigh down business activity. Additionally, firms reported challenges in accessing foreign currency, hence some constraints in sourcing raw materials.

factors. Professional and financial services firms as well as firms in the tourism sector reported increased demand and sales. Nonetheless, respondents highlighted the cost of goods and services which has remained elevated as a constraint.

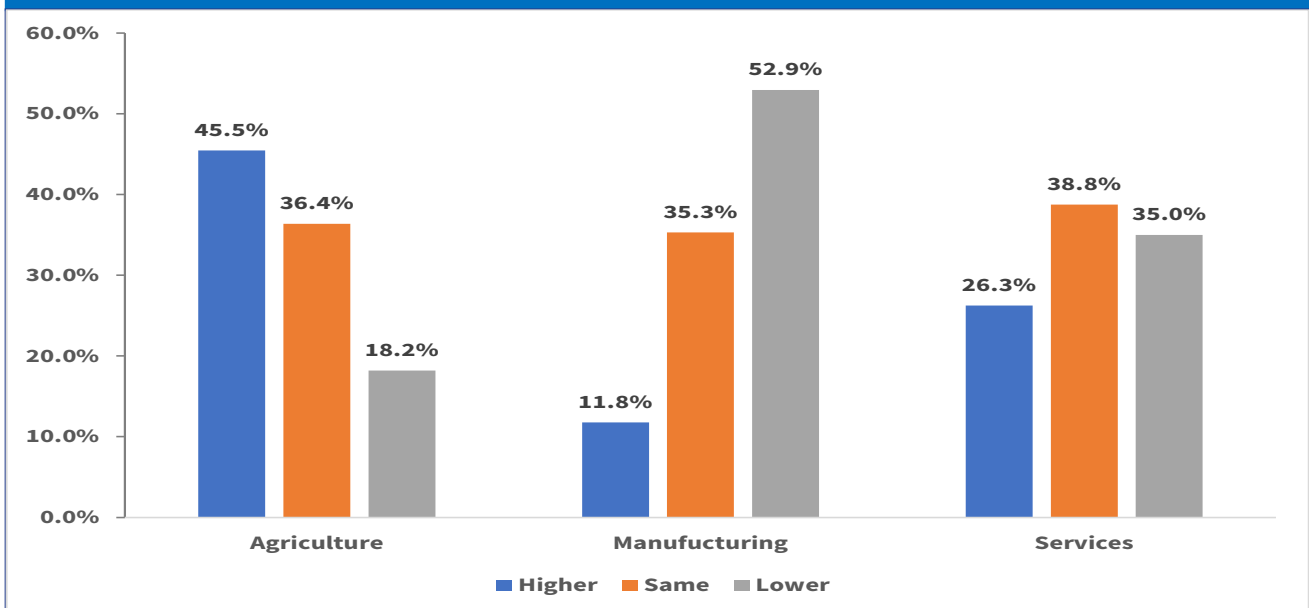
In the services sector, firms in specific sectors reported increased business activity supported by seasonal

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

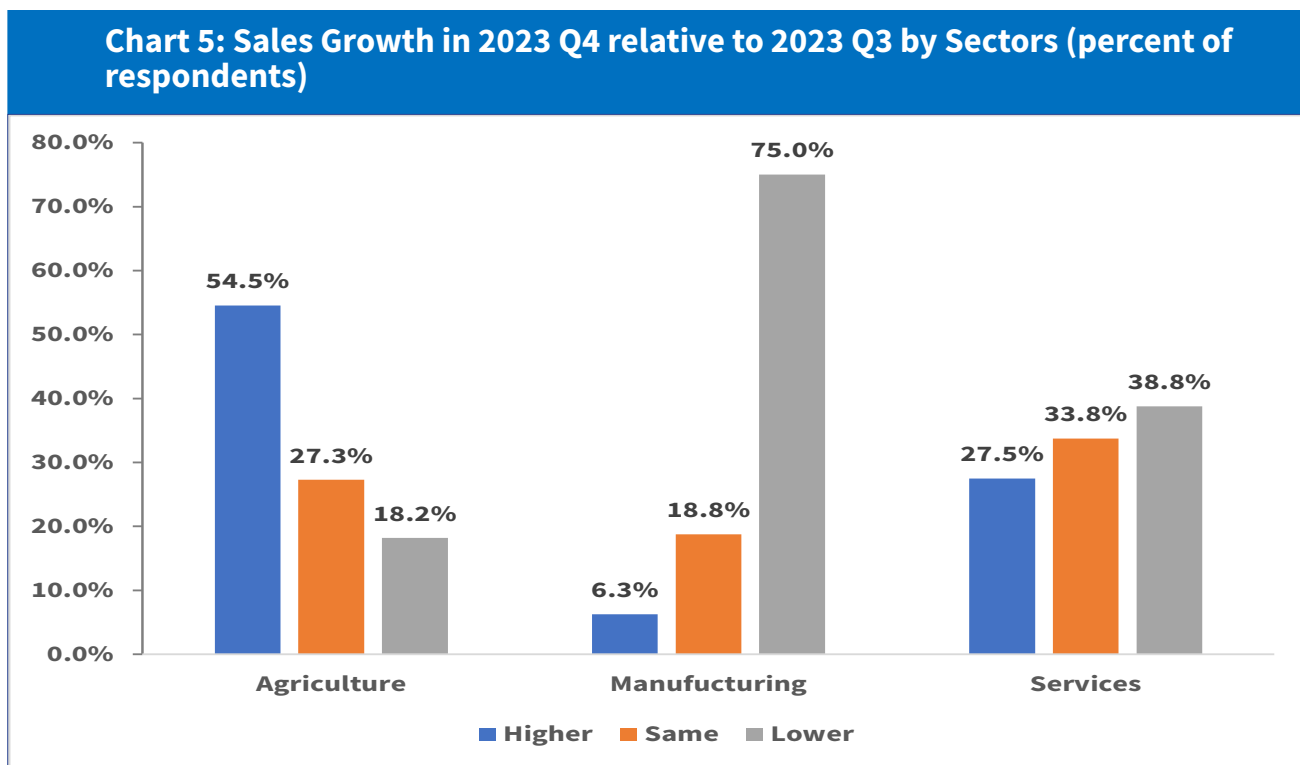


In terms of sectoral orders in the fourth quarter of 2023, firms in the agriculture sector reported higher demand/orders (**Chart 4**).

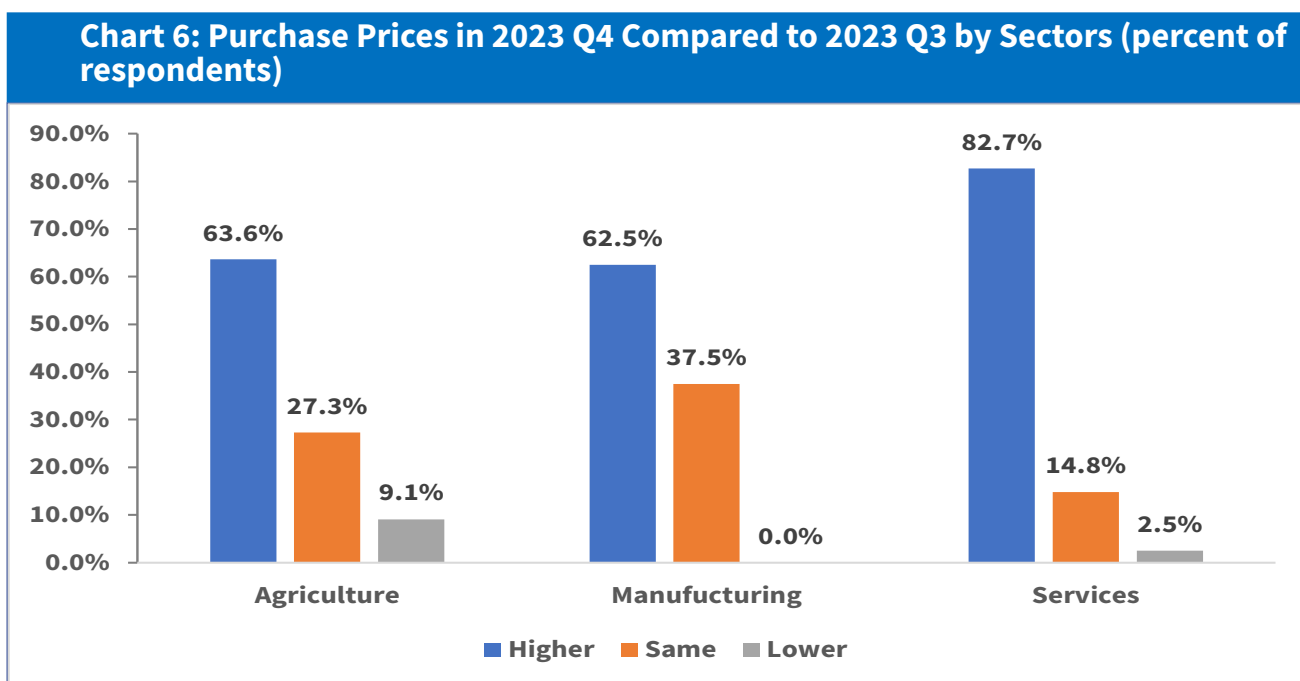
Chart 4: Demand/Orders in 2023 Q4 Relative to 2023 Q3 by Sectors (percent of respondents)



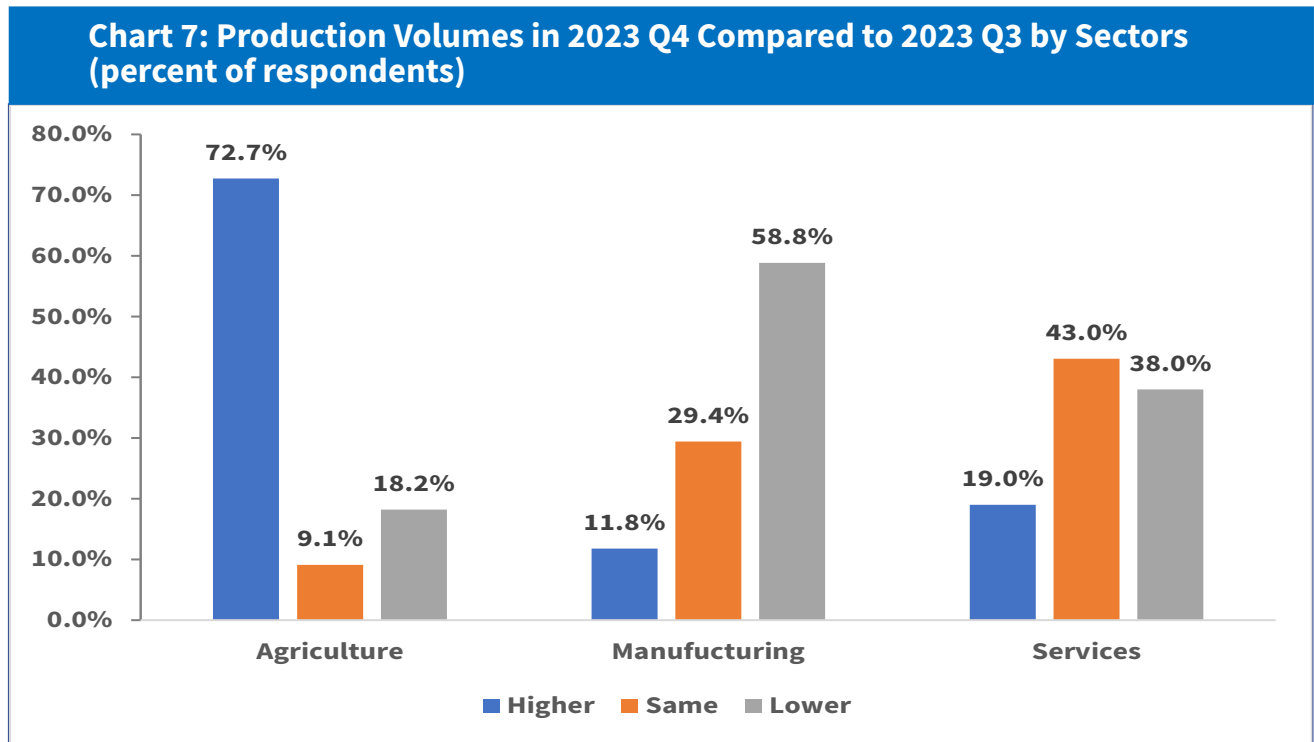
Majority of manufacturing sector firms reported that sales growth largely remained low (**Chart 5**).



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



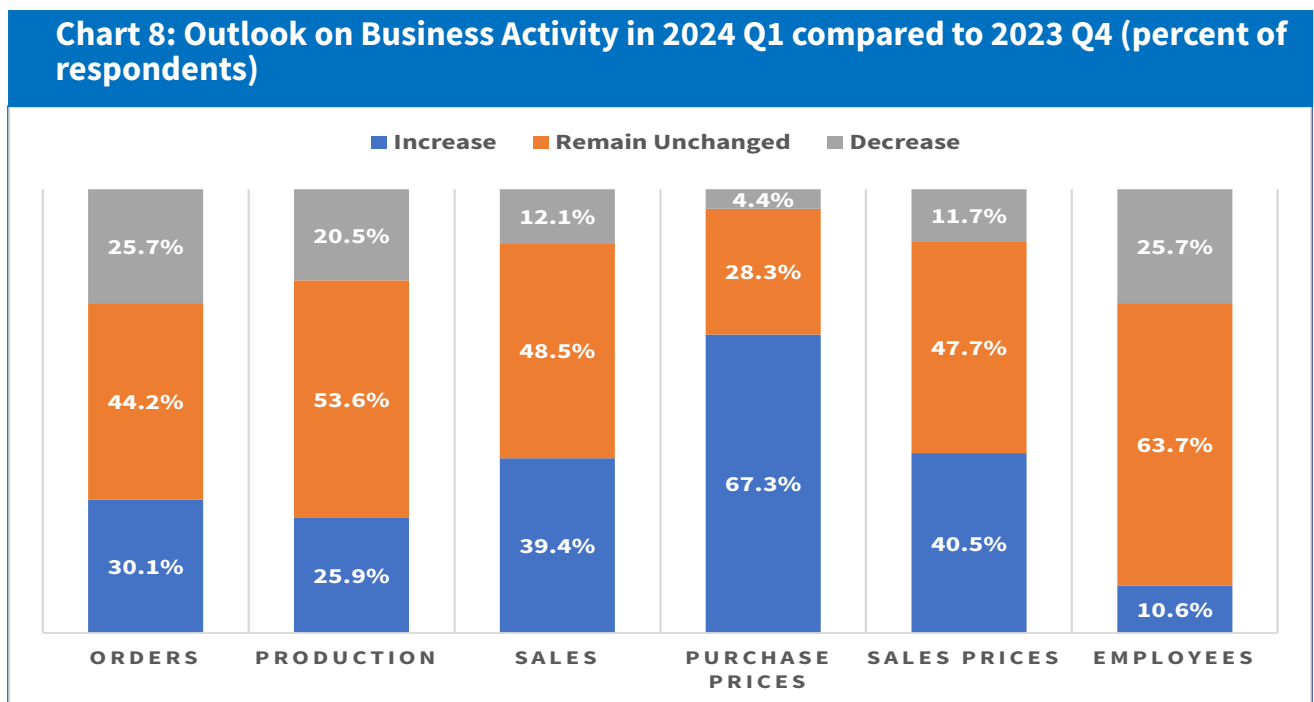
Production volumes were lower for majority of respondents in the manufacturing sector, as consumer demand remained subdued. For majority of firms in the services sectors, production volumes remained the same due to similar reasons. Agriculture sector firms reported the highest production volumes following favourable weather conditions (**Chart 7**).



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 improve with majority of respondents reporting higher or unchanged volumes of business activity (**Chart 8**).



Firms in the agriculture sector expect improved business activity on account of seasonal factors. Firms in the flower industry, in particular, expect increased demand, production and sales associated with the Valentine celebrations. The forecasted rainfall for the first quarter of 2024 is further expected to boost agricultural production in general.

Majority of businesses in the manufacturing sector expect business activity to be the same or lower. Respondents note that they continue to hold onto unutilized inventory due to low consumer demand. The forecasted rainfall is, however, expected to yield good harvest, hence some let up on input costs.

In the services sector, firms expect improved business activity due to seasonal factors. Firms in the tourism sector expect continued activity in the first quarter as businesses resume their normal operations after the December holidays. Nevertheless, high interest

rates, increased taxation and the impact of a weaker Shilling are expected to keep input costs elevated, with global geopolitical tensions potentially affecting supply chains. 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 holding high inventory, sufficient to cover increases in demand.

Firms which reported possible difficulty in expanding their operations cited difficulties in securing finances for working capital. Other reasons cited included increased overhead costs, notably, cost of electricity, fuel, labour and increase in taxation which has worsened the cost of doing business.

Chart 9: Expectations of Purchase Prices in 2024 Q1

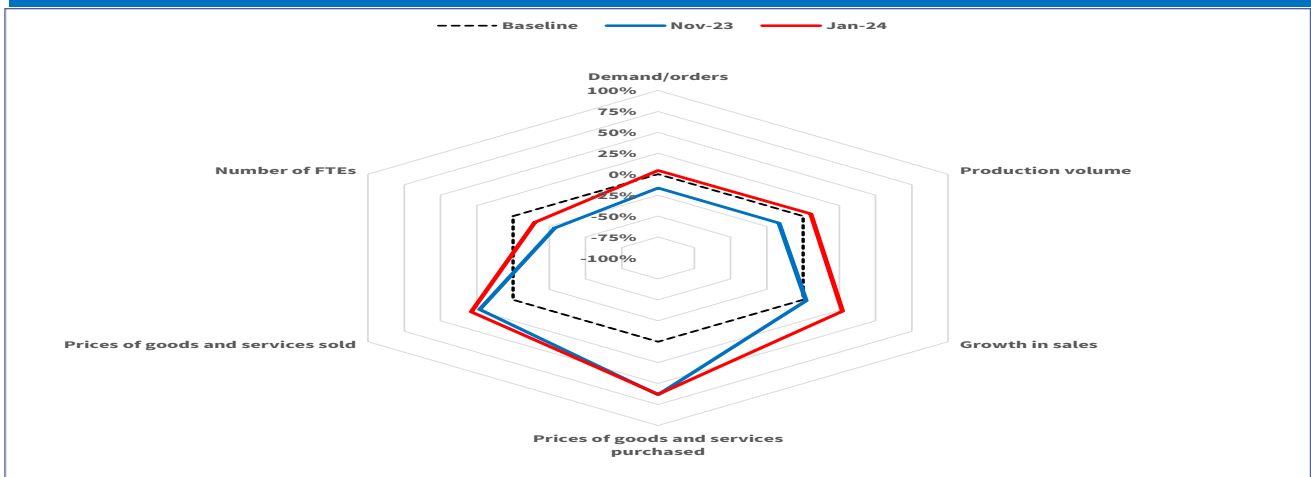
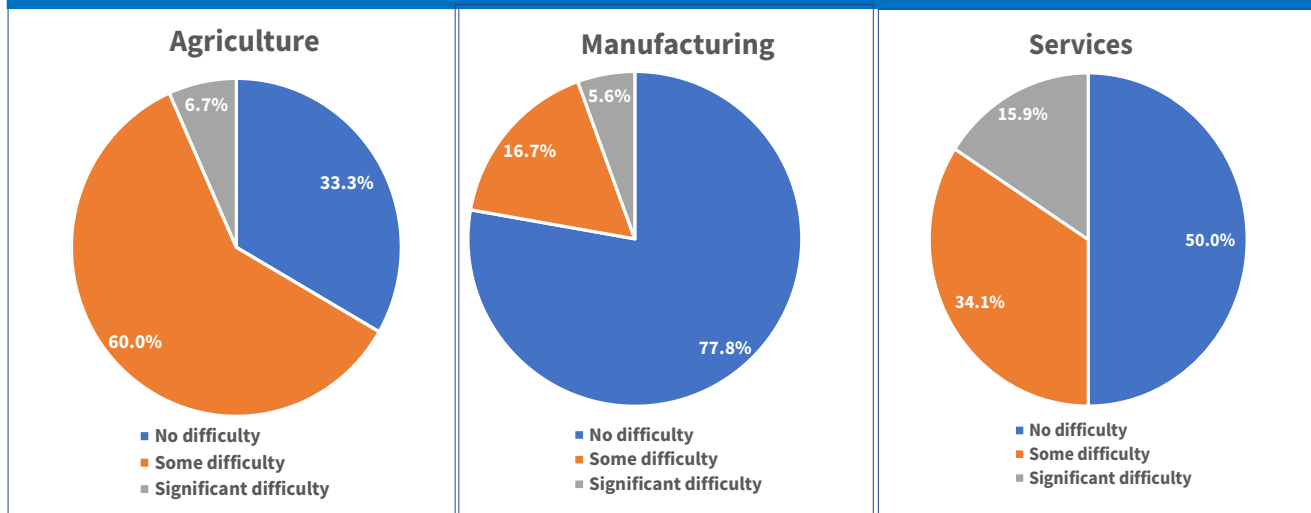


Chart 10: Potential Level of Difficulty in Meeting Increased Demand or Sales (percent of respondents)

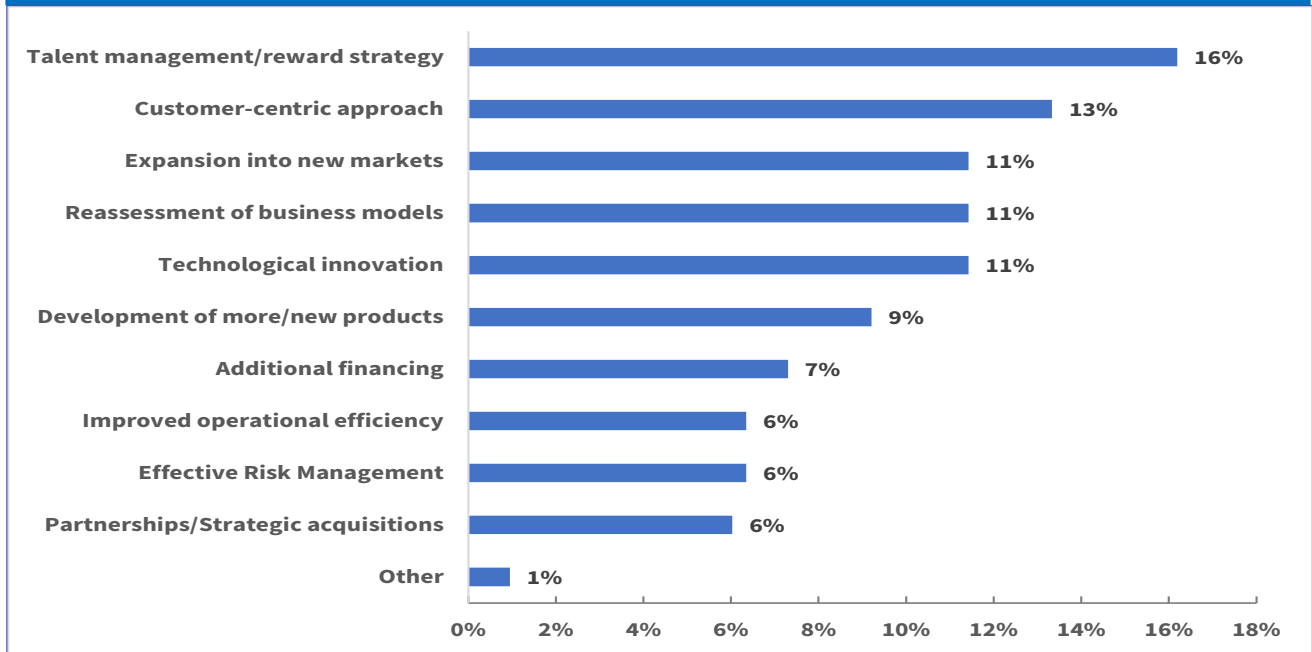


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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.

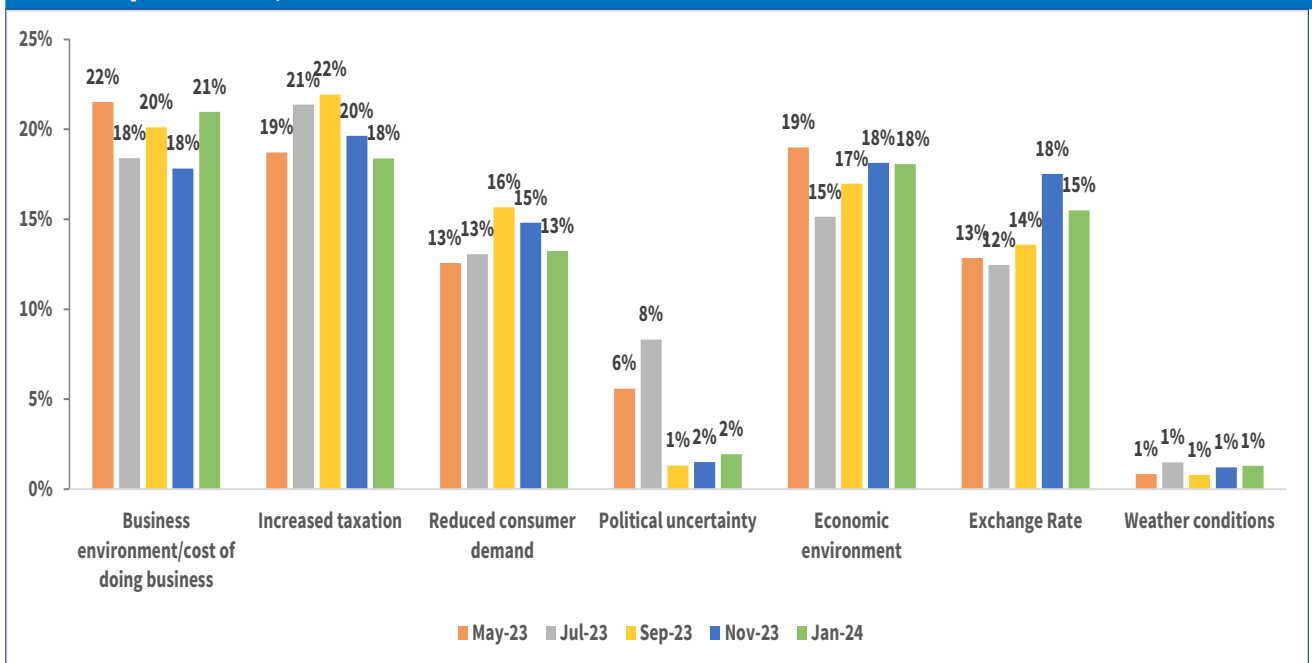
The results show that talent management, expansion into new markets and customer centricity are the key drivers of firms' growth over the next one year (**Chart 11**).

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



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

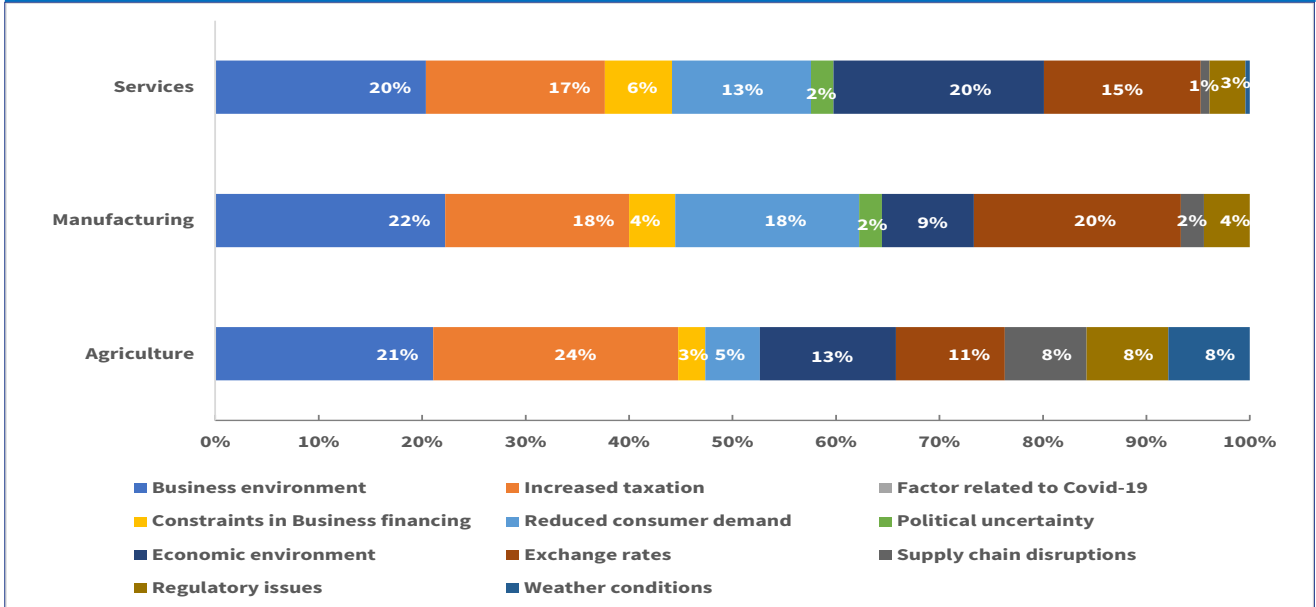
Chart 12: Domestic Factors Constraining Firms' Expansion (percent of respondents)



The business environment and the economic environment were of greater concern for firms in the services sector. In the manufacturing sector, firms were more concerned about the business

environment and the exchange rates. Firms in the agriculture sector on the other hand were most concerned about the business environment, and increased taxation (**Chart 13**).

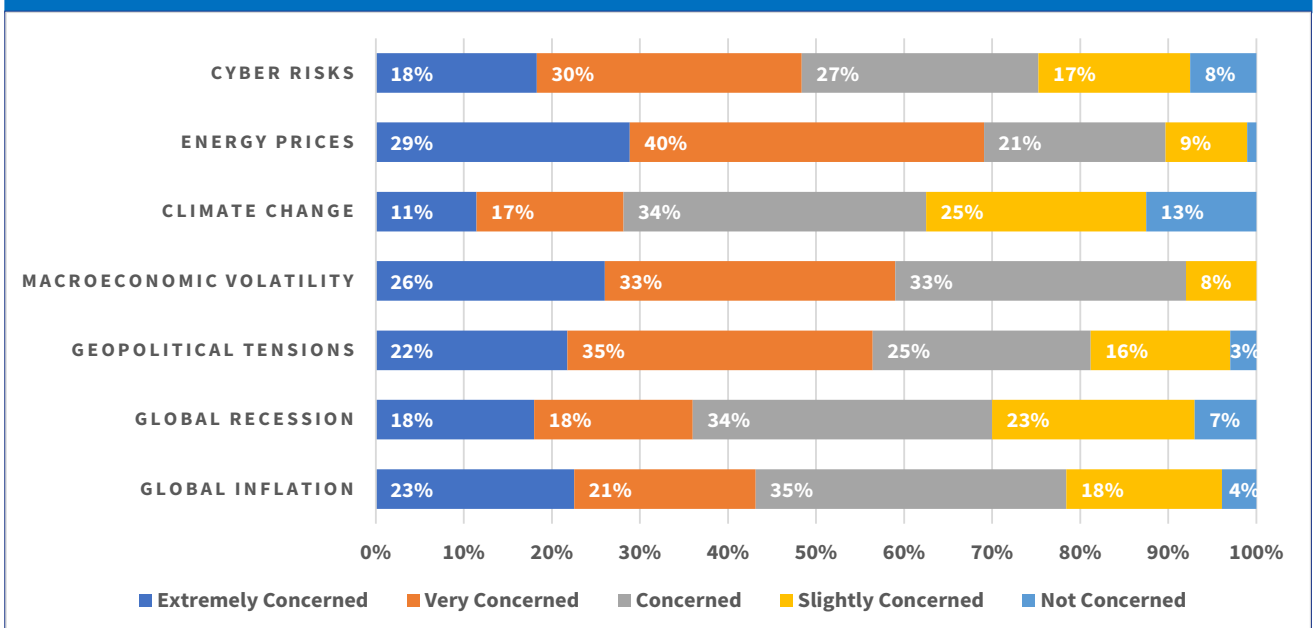
Chart 13: Domestic Factors Constraining Firms' Expansion by Sectors (percent of respondents)



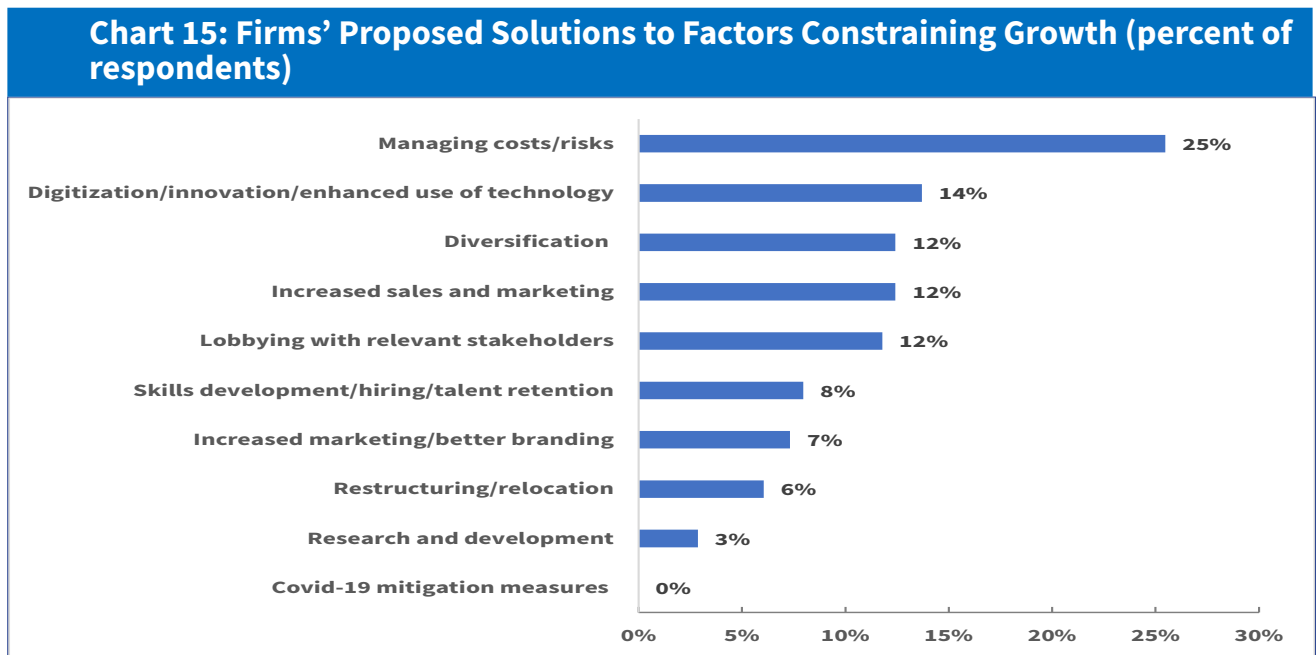
The Survey also sought to establish the top external (non-domestic) threats to business expansion and growth. With the recent easing of global inflation, respondents expressed more concern about increasing geopolitical tensions even as they continued to be concerned about energy prices and

macroeconomic volatility (**Chart 14**). Agriculture sector firms were most concerned about geopolitical tensions while manufacturing and services sector firms were most concerned about energy prices and macroeconomic volatility, respectively.

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

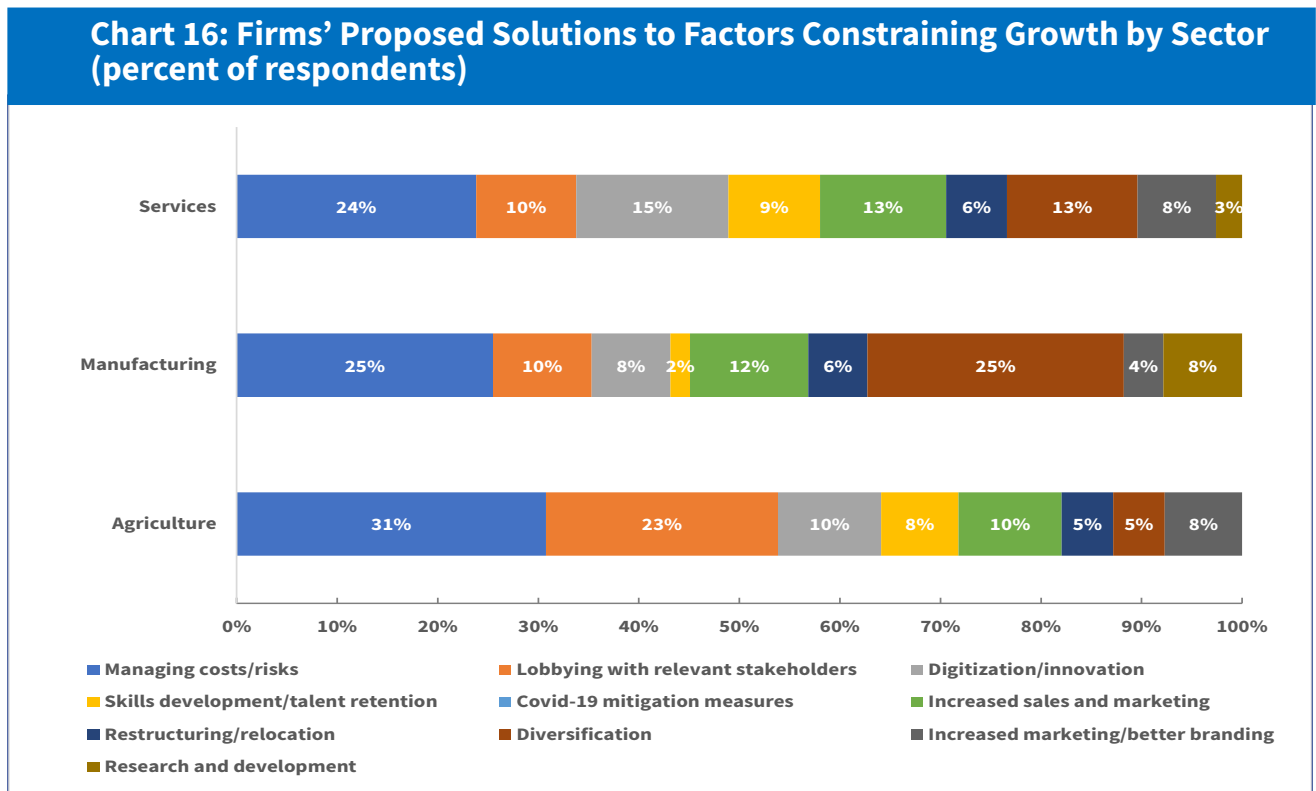


To mitigate the factors constraining growth/expansion, firms proposed various solutions including management of costs and risks, digitization of their operations, and diversification (**Chart 15**).



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

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

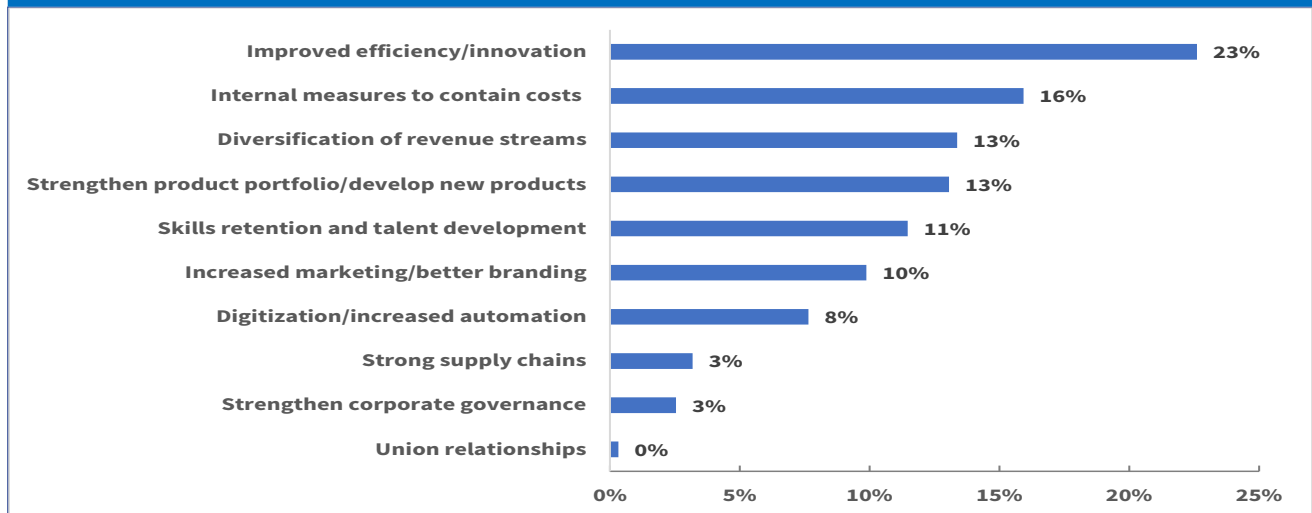


9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

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 internal measures to control costs as the main internal factors that could

strengthen outlook across all sectors. Diversification 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)

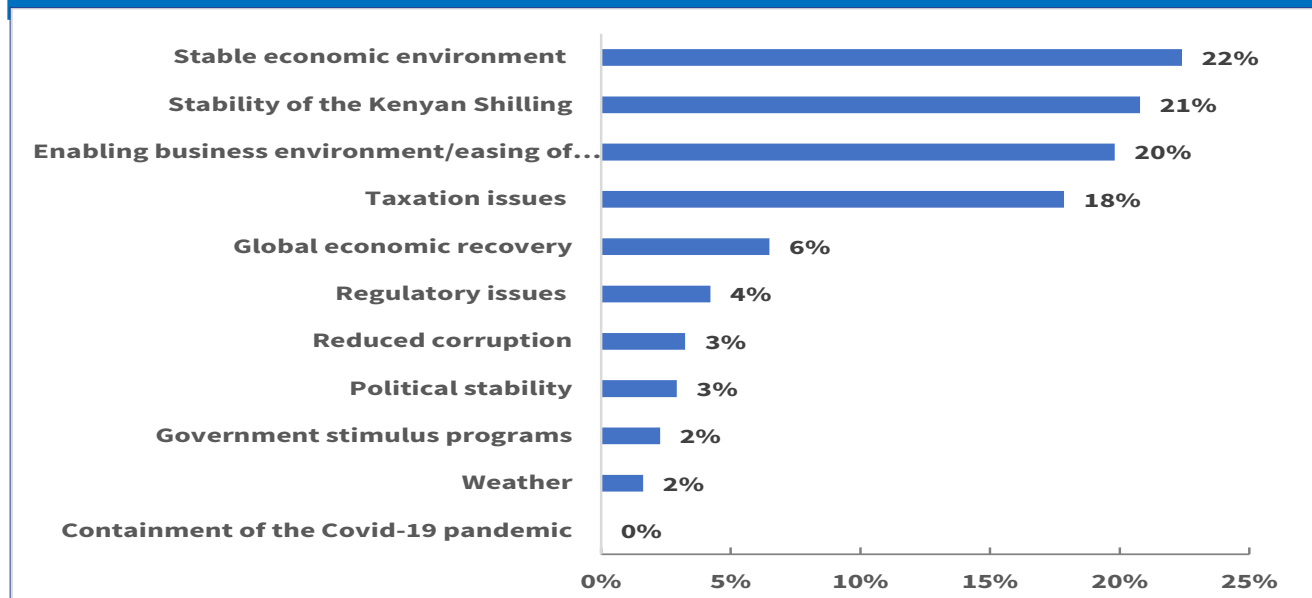


A sectoral analysis of the identified internal factors revealed that diversification of revenue streams was another important factor for all sectors.

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

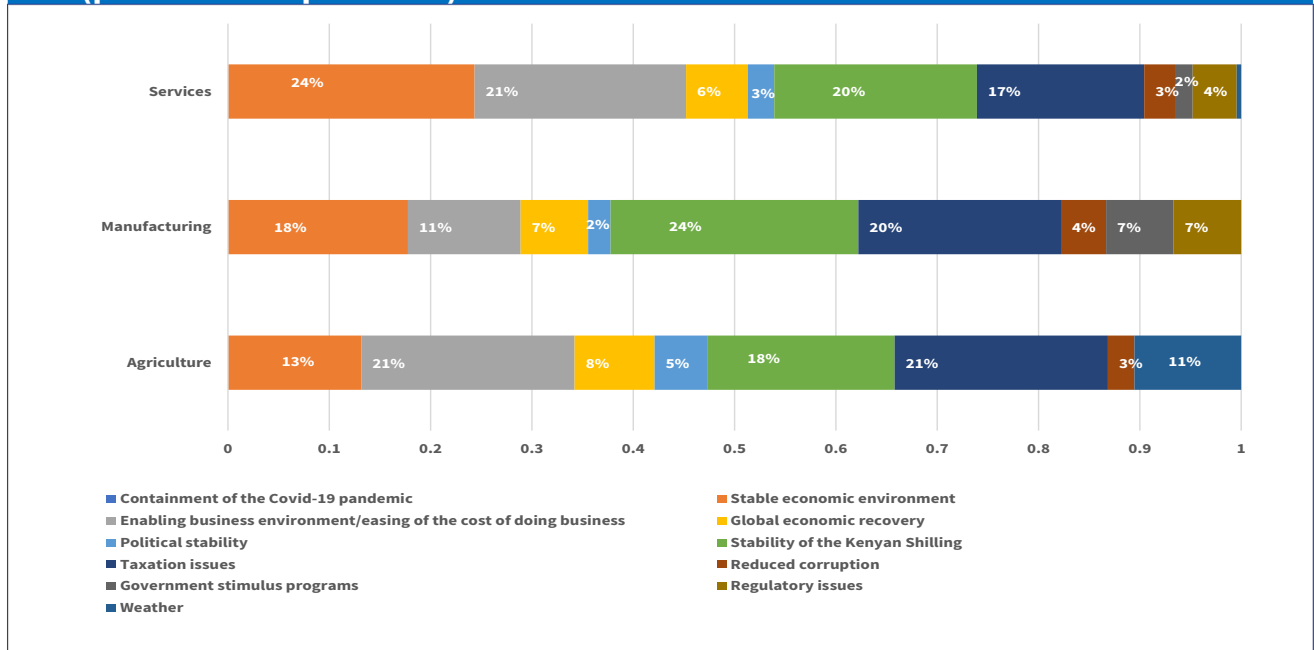
an enabling business environment as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months (**Chart 18**).

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



Besides the top three factors identified in **Chart 18**, global economic recovery was an equally important factor 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)

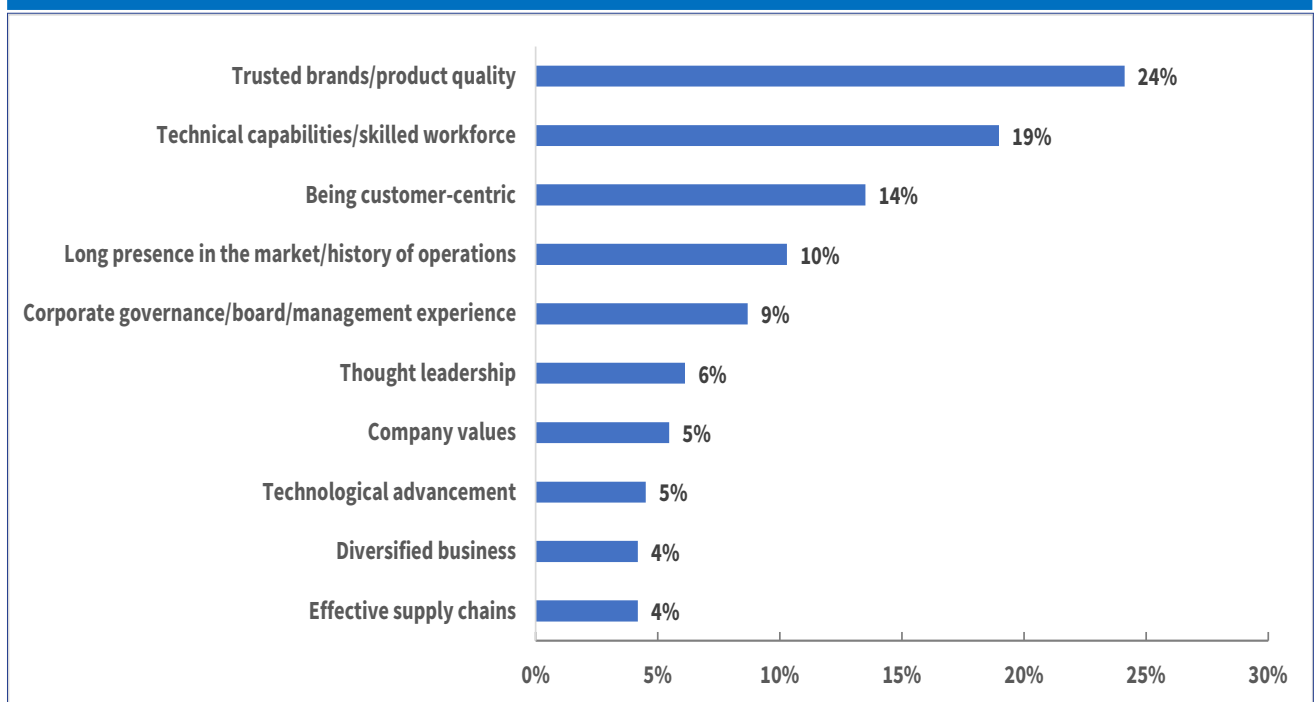


10. TOP COMPANY STRENGTHS

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

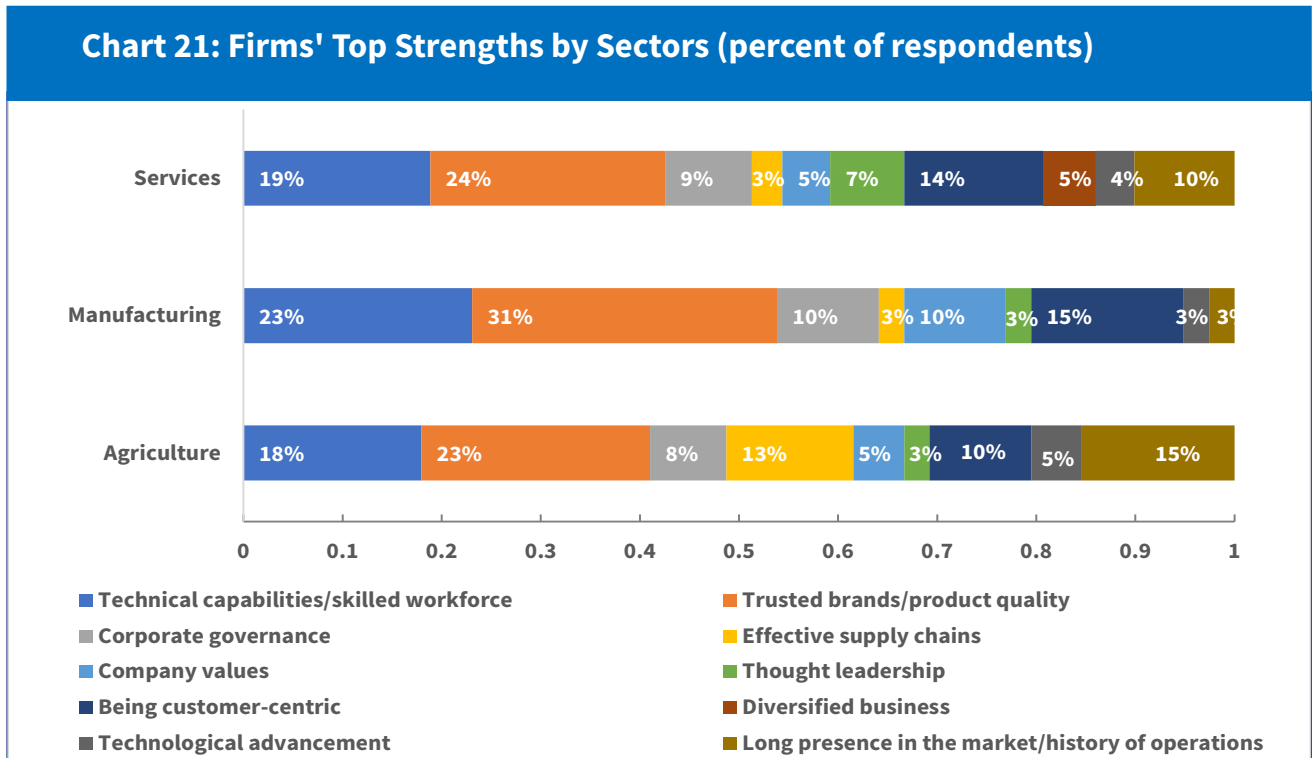
capabilities and customer centricity as their top strengths. Equally important is their history/length of presence in the market (**Chart 20**).

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



At the sector level, besides the factors identified in **Chart 20**, corporate governance was an important factor for services and manufacturing sector firms.

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



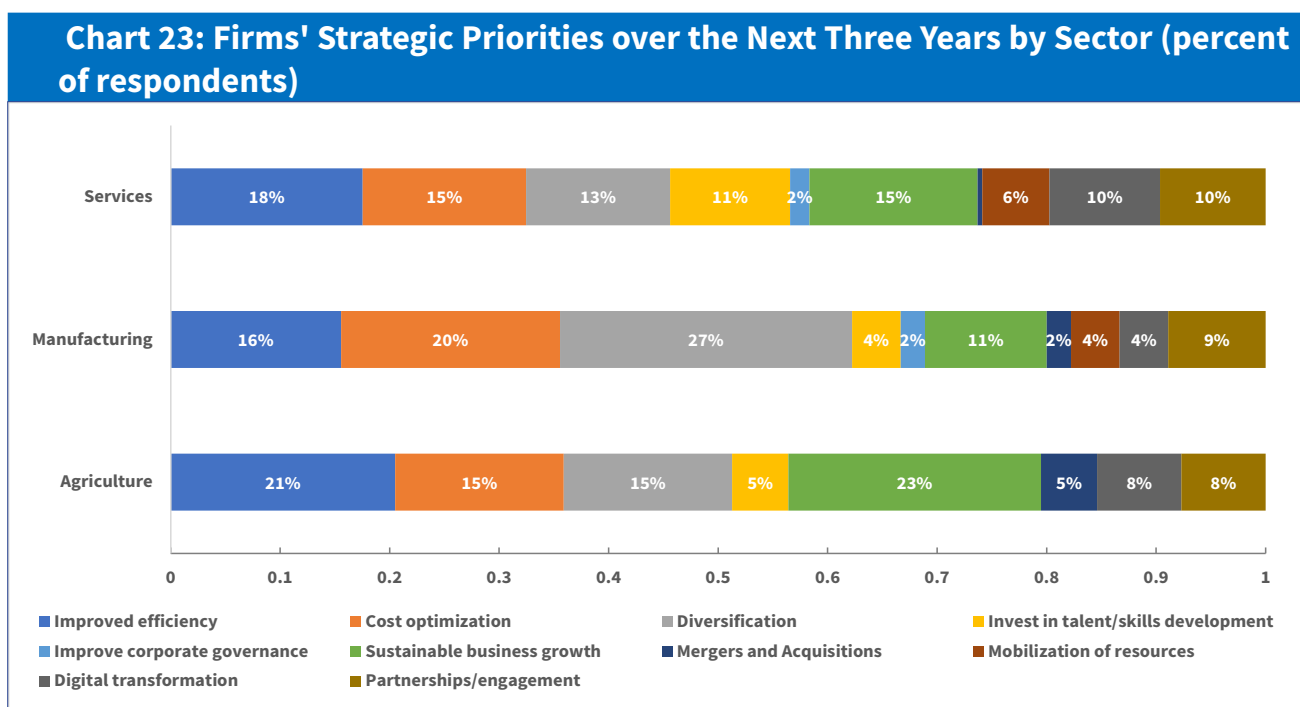
11. STRATEGIC PRIORITIES

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

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



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 January 2024 CEOs Survey revealed improved optimism for company, sectoral and global growth prospects in the next 12 months, with optimism regarding growth prospects for the Kenyan economy strengthening on the back of improved agricultural production. Despite uncertainties arising from continued geopolitical tensions and a modest global economic outlook, optimism for global growth improved with respondents citing the recent easing of global inflation as the main reason for their optimism.

Firms reported mixed business activity in 2023 Q4 compared to 2023 Q3, with specific sectors experiencing increased business activity due to seasonal and industry-specific factors. Surveyed firms expect business activity in 2024 Q1 to improve. Seasonal factors are expected to support firms in financial services, tourism and professional services sectors.

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

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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