



Central Bank of Kenya

Chief Executive Officers' (CEOs) Survey

MARCH 2024

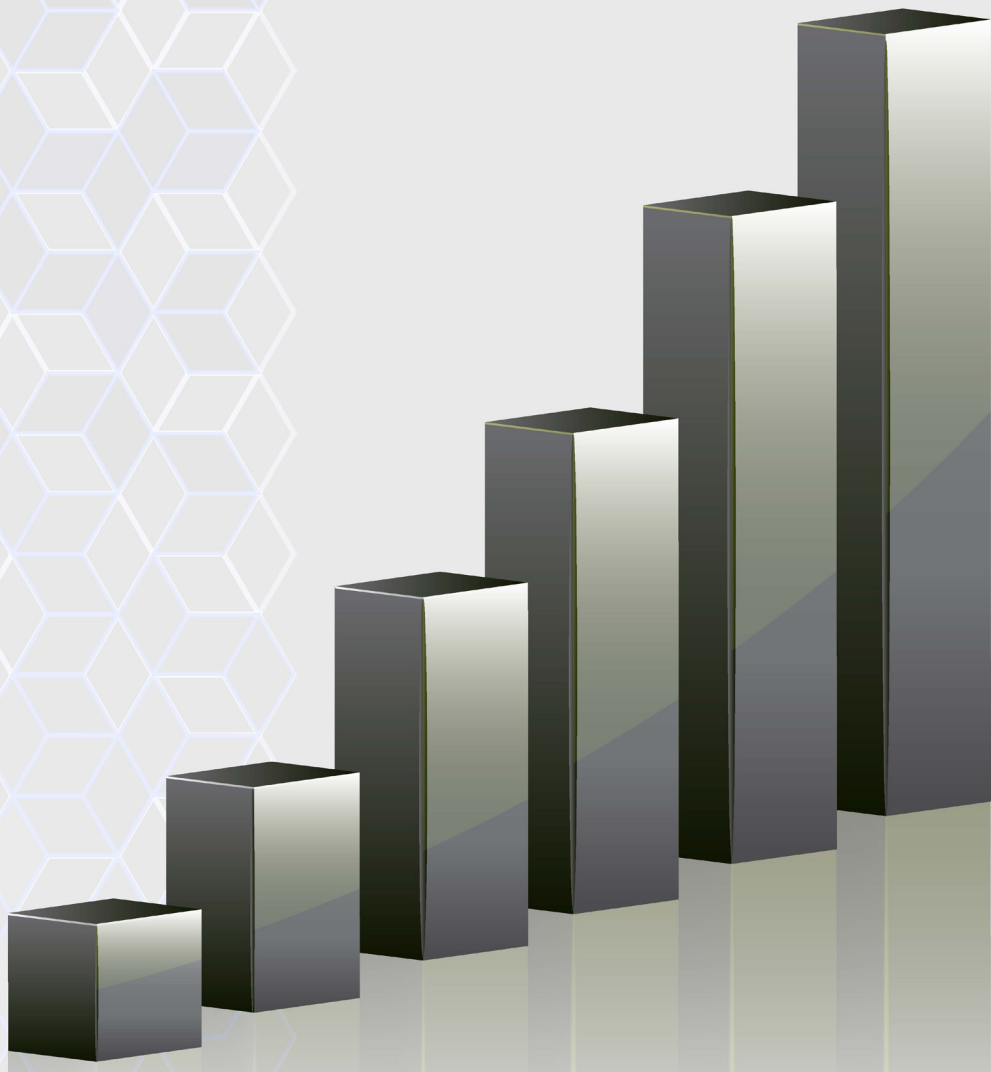


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1. BACKGROUND

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 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 March 11 and 22, 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 2024 quarter one (Q1) compared to 2023 quarter four (Q4), and their expectations for economic activity in the second quarter of 2024 (Q2). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (March 2024 – February 2025), as well as the strategic directions and solutions to address their key constraining factors over the medium term (March 2024 – February 2027). This report provides a summary of 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 (17 percent), agriculture (11 percent), professional services (14 percent), healthcare and pharmaceuticals (12 percent), tourism, hotels, and restaurants (6 percent), ICT and telecommunications (6 percent), real estate (4 percent), mining and energy (3 percent) and wholesale and retail trade (3 percent). Other sectors such as education, security, transport and storage, 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, publicly listed domestic companies and government owned entities. Forty eight percent of the respondents had a turnover of over Ksh 1 billion in 2023. 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, sector, Kenyan, and global growth improved, supported by sector specific opportunities and stable macroeconomic environment.
- The stronger optimism for Kenya's growth prospects was on account of strengthening of the Kenya Shilling, good weather conditions and easing inflation.
- Despite lingering concerns and uncertainty in evolution of geopolitical tensions, optimism for global growth improved, largely on account of easing global inflation.
- Respondents reported improved business activity in 2024 Q1 compared to 2023 Q4. Enhanced

business activity was reported by firms in agriculture, health, real estate, education, ICT and communication, wholesale and retail trade.

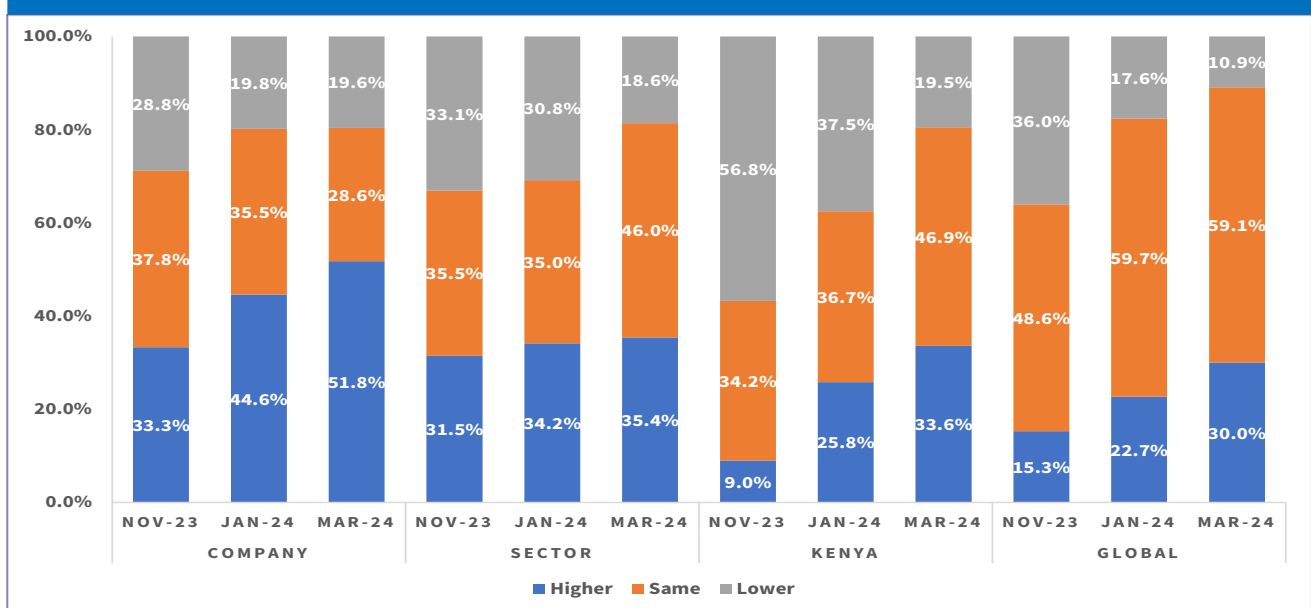
- Firms expect continued improvement in business performance in Q2 2024 compared to Q1 2024. This is driven by easing inflation, currency appreciation, seasonality factors, and sector specific demand in sectors such as agriculture, health, education, ICT and communication, wholesale and retail trade.
- Talent management, customer centricity and expansion into new markets are the key drivers of firms’ growth in the next one year.
- The business environment (cost of doing business), increased taxation, the economic environment and declining consumer purchasing power (demand) were identified as the main domestic constraints to firms’ growth and expansion in the near term. Energy prices, macroeconomic volatility, geopolitical tensions, and inflation were highlighted as external factors that could threaten firms’ expansion. However, firms plan to mitigate these constraints by managing their costs, digitization of processes and innovation, diversification of services and products, and increased marketing.
- Firms highlighted increased efficiency and innovation, diversification of revenue streams and development of new products as internal factors that could strengthen their economic outlook. Moreover, a stable macroeconomic environment, certainty around taxation issues and easing cost of doing business were identified as external possible drivers of a stronger 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, sector, Kenyan, and global growth prospects over the next 12 months improved supported by seasonal factors and sector specific growth in demand (**Chart 1**). Firms in the health sector expect growth to be supported by government initiative in the roll out of the universal healthcare (UHC) program, the Government affordable housing program continues to support growth in the real sector, innovation in the education sector through intensification of online learning programs has led to increased demand and expansion, the agriculture sector growth is largely on account of good weather prospects, and the ICT and communication sector growth is largely driven by higher demand as digitization of processes expands. However, liquidity constraints and increased cost of borrowing, rising cost of production, particularly energy costs, uncertainty around taxes and declining consumer purchasing power were identified as potential challenges.

The Survey showed improved prospects for the Kenyan economy, largely driven by appreciation of the Kenya shilling, increased agricultural production on account of good weather conditions and easing inflation.

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



Optimism for global growth continued to improve, supported by easing global inflation. However, concerns over geopolitical risks and the possibility of a recession in some advanced economies continue to linger.

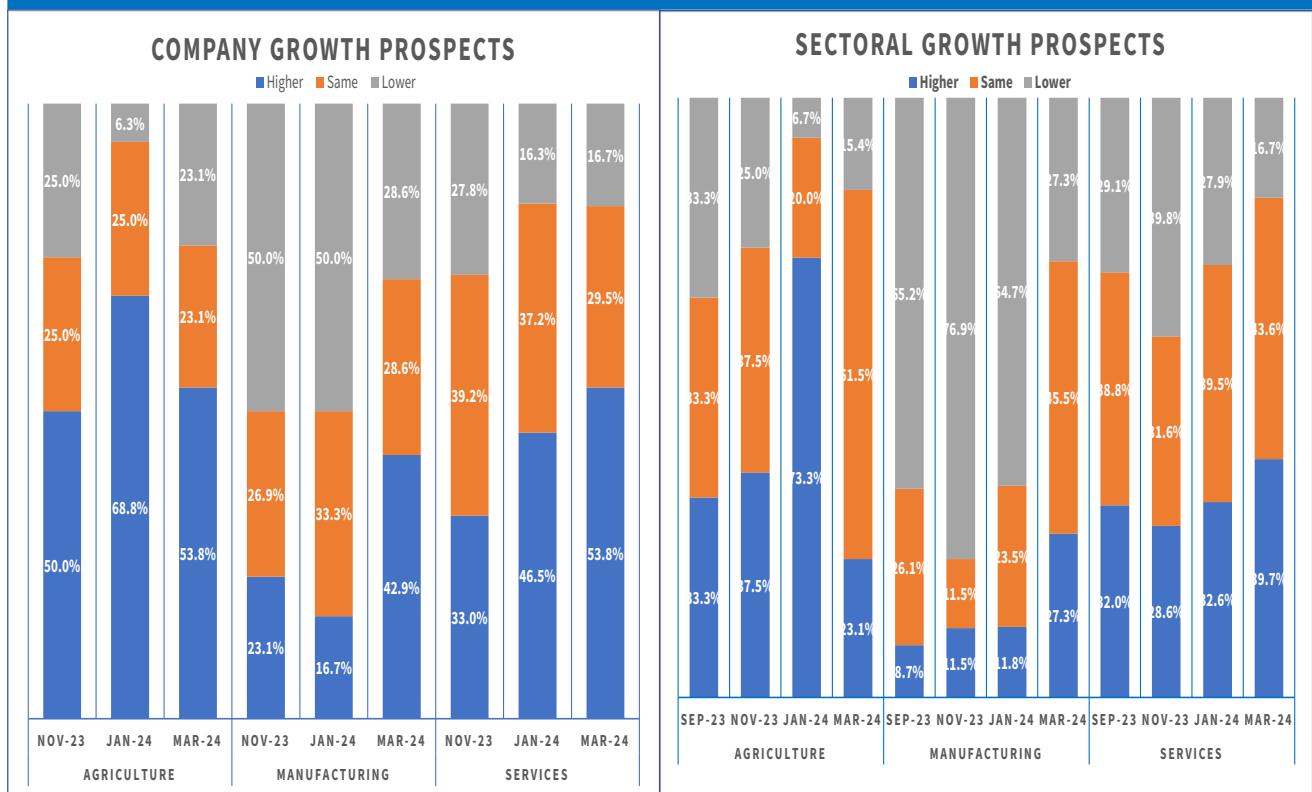
Optimism in the agriculture sector remains high, largely on account of favourable weather conditions which is expected to boost production. However, concerns around the high cost of inputs within the sector remain **(Chart 2)**.

More respondents in the manufacturing sector reported higher growth prospects for their company

and sector over the next 12 months. Expected good performance in the agriculture sector is expected to support manufacturing sector through the agro-processing linkages. Firms expect increased demand to be met through utilization of existing idle capacity and continued leveraging on technology. However, declining purchasing power and high input costs continue to constrain firms.

Growth prospects for the services sector over the next 12 months continued to improve, driven by seasonality and sector specific demand in health, education, ICT and communication, wholesale and retail trade.

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



6. BUSINESS ACTIVITY IN 2024 Q1 COMPARED TO 2023 Q4

The Survey sought CEOs perceptions on business activity in the first quarter of 2024. Respondents reported improved business activity in 2024 Q1 compared to 2023 Q4 (**Chart 3**). Firms reported increased demand orders, production volumes and growth in sales, albeit with unchanged number of full-time employees. Though elevated, input and purchase prices were lower in 2024 Q1 compared to 2023Q4, largely on account of easing commodity prices.

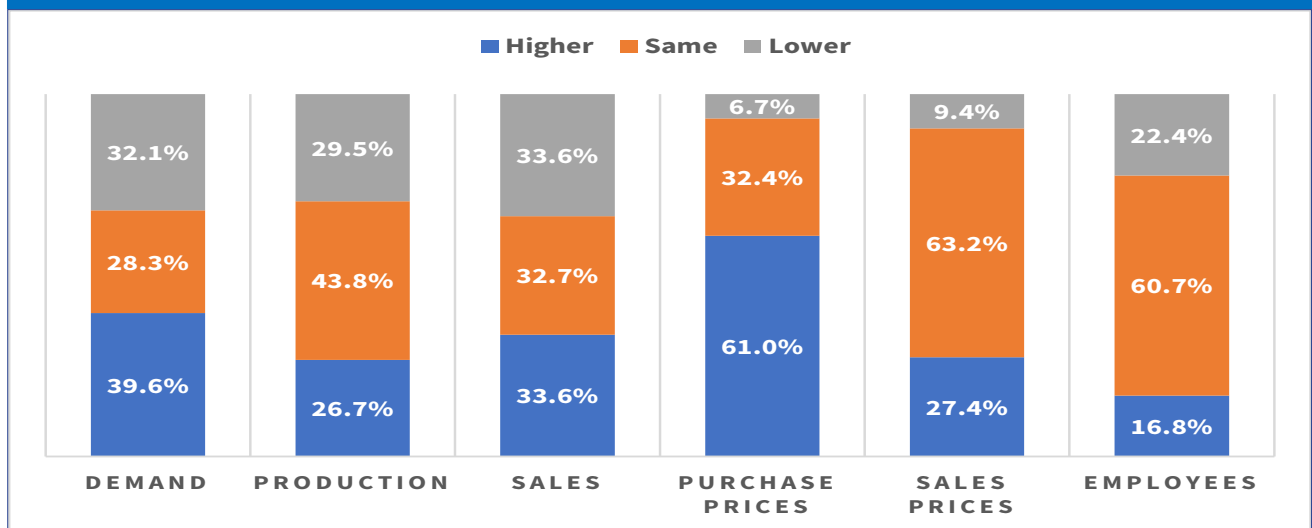
Firms in the agriculture sector reported increased demand, production, and sales supported by

favorable weather conditions. Meanwhile, the number of full-time employees remained largely unchanged. However, the increased cost of farm inputs (goods purchased) remains a challenge.

Business activity in the manufacturing sector remained subdued, largely due to the low consumer purchasing power and the increased cost of production, particularly cost of energy and credit.

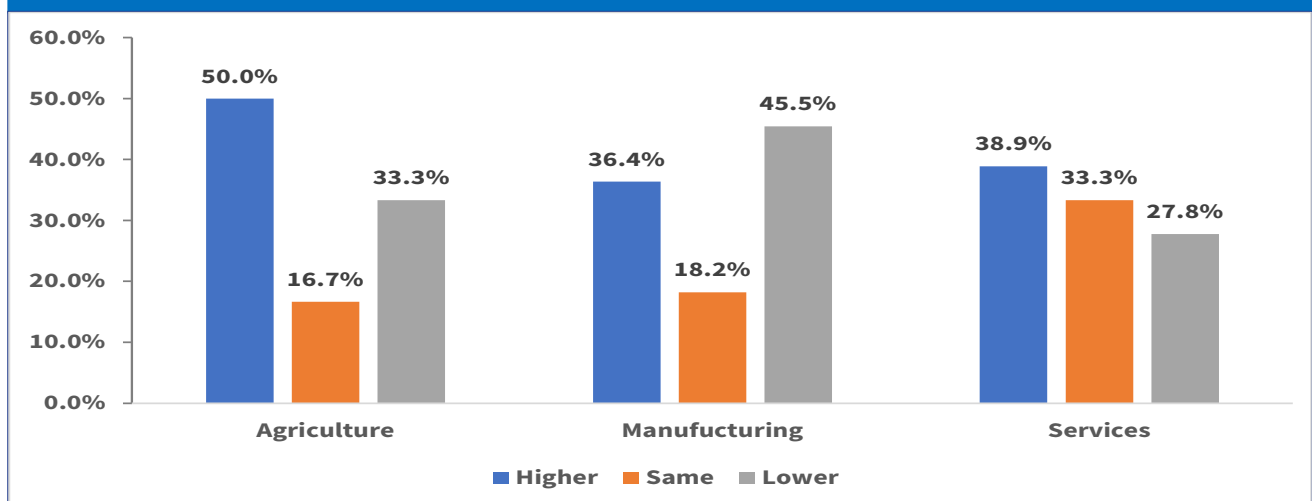
Firms in the services sectors reported mixed business activity supported by seasonality and sector specific demand. Firms in the financial services sector, education, ICT and communication, professional services, health, real estate, wholesale and retail trade reported increased activity.

Chart 3: Business Activity in 2024 Q1 Compared to 2023 Q4 (percent of respondents)

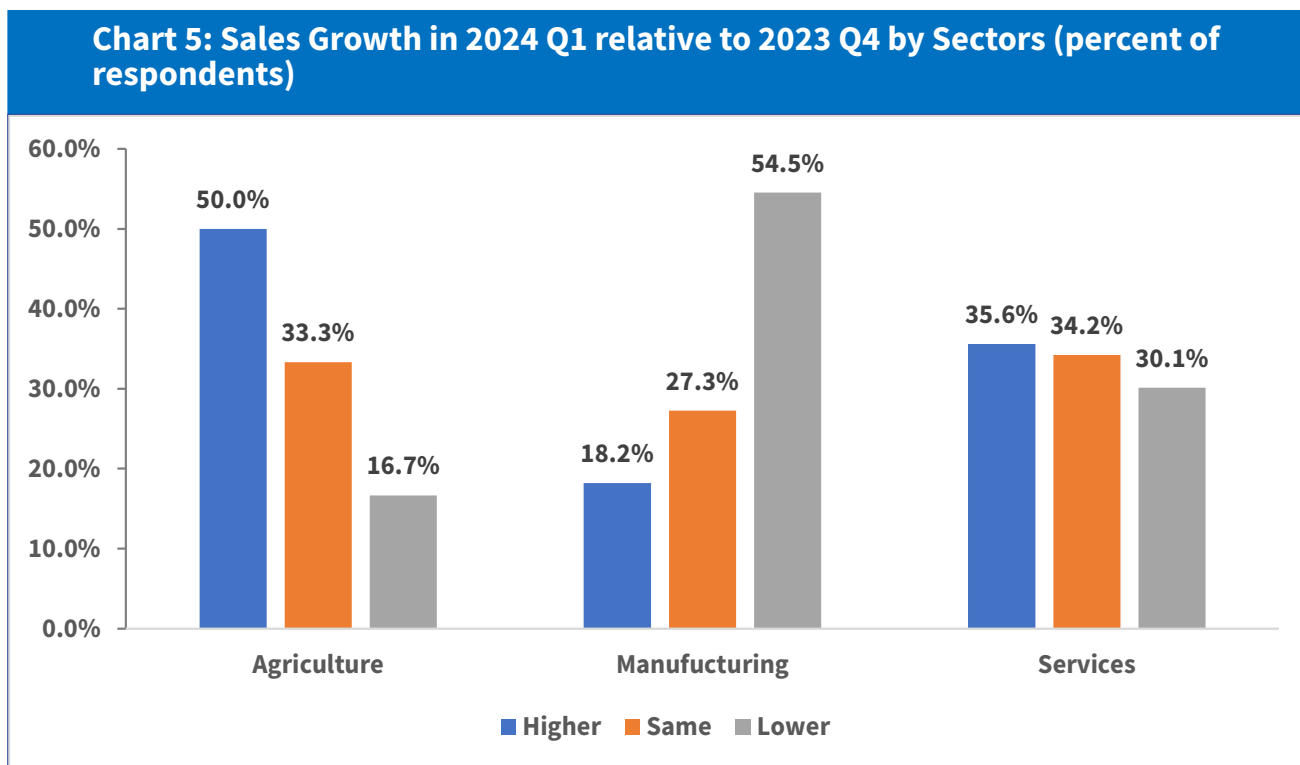


Firms in the agriculture sector reported higher demand orders in the first quarter of 2024 compared to the other sectors (**Chart 4**).

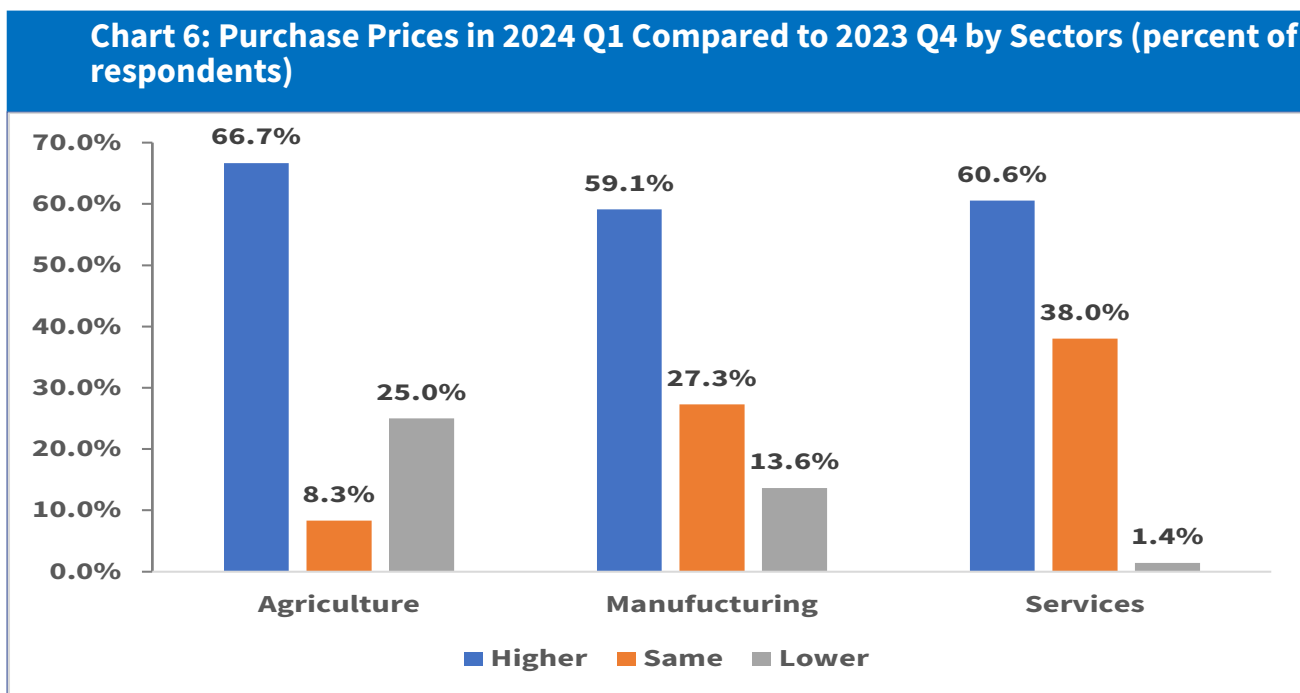
Chart 4: Demand/Orders in 2024 Q1 Relative to 2023 Q4 by Sectors (percent of respondents)



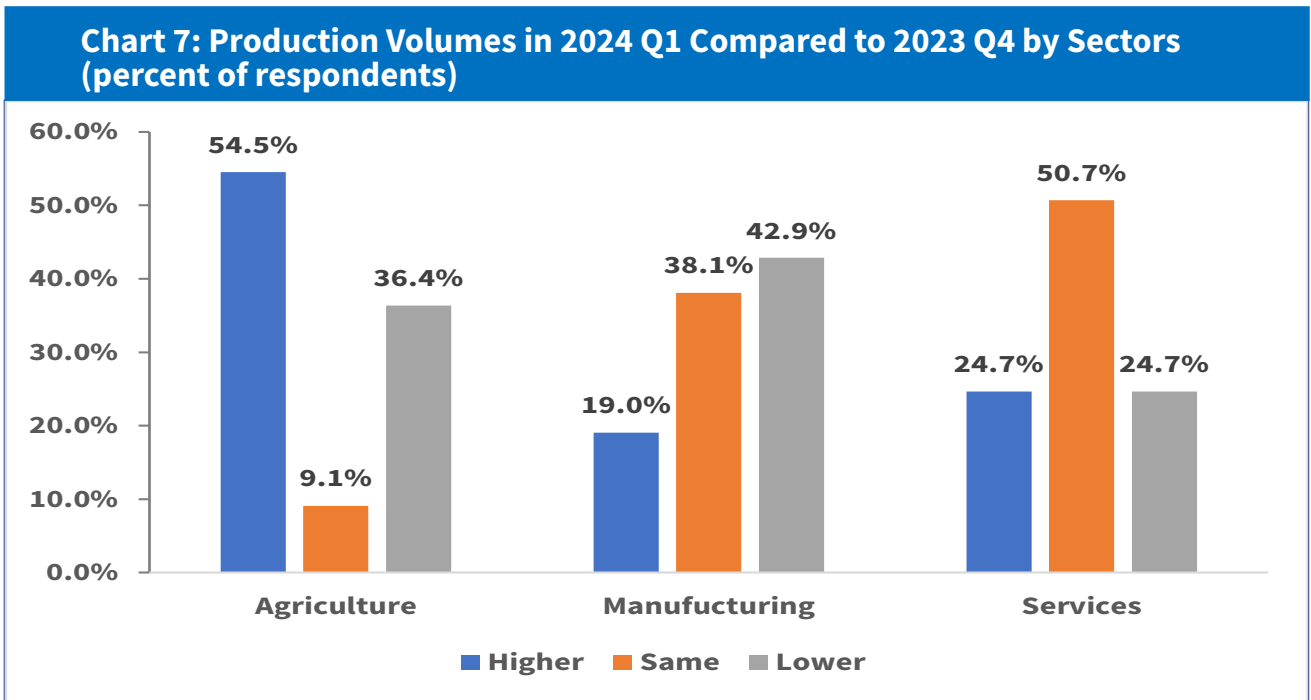
Majority of manufacturing sector firms reported that sales growth largely remained low (**Chart 5**).



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



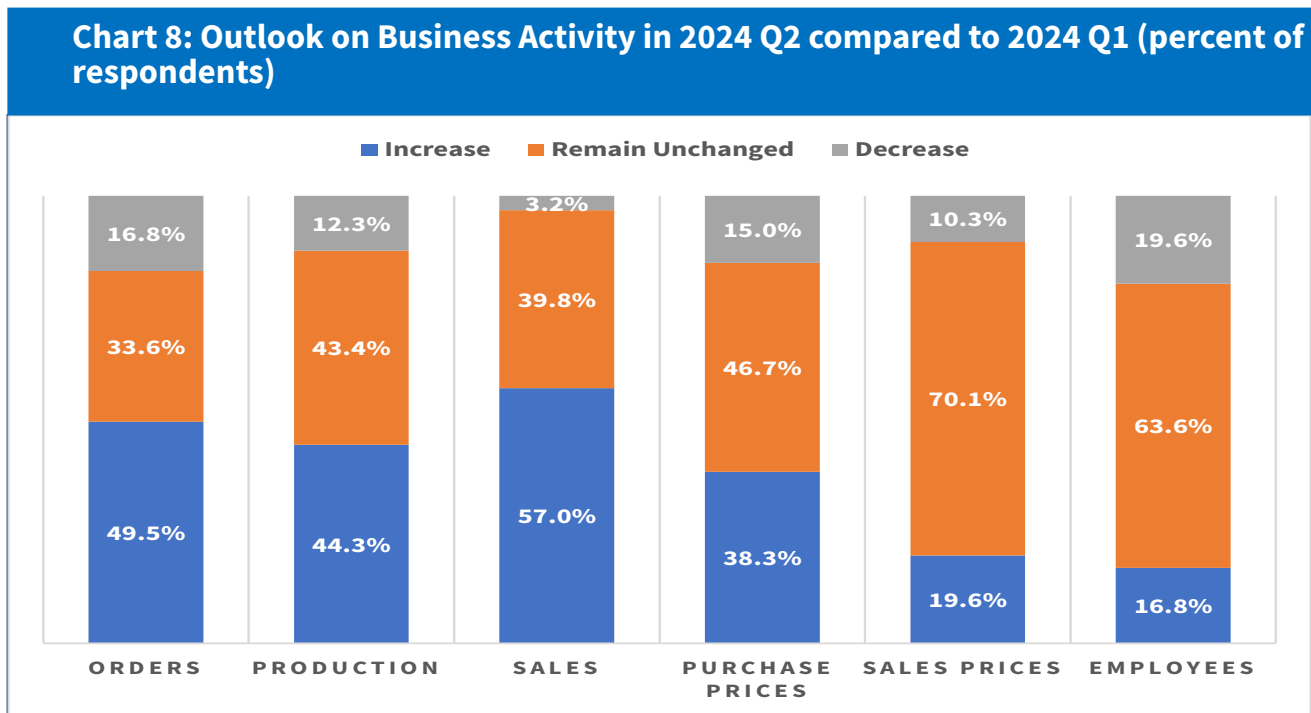
Production volumes were lower in the manufacturing and services sector largely on account of low consumer demand. However, the highest proportion of Agriculture sector firms reported higher production volumes supported by favourable weather conditions experienced during the period **(Chart 7)**.



7. OUTLOOK FOR BUSINESS ACTIVITY IN 2024 Q2 COMPARED TO 2024 Q1

The Survey sought CEOs expectations of business activity in the second quarter of 2024 relative to the first quarter of 2024. Majority of respondents

reported expectations of increased business activity in the next quarter **(Chart 8)**.



Agriculture sector firms expect improved business activity in the next quarter, supported by good weather conditions in line with the long rains season. This is expected to boost agricultural production. However, majority of the respondents expect the sales prices to remain unchanged or be lower due to increased supply.

Most respondents in the manufacturing sector expect business activity to either remain the same or increase, largely driven by seasonality factors. Firms expect to utilize their existing idle capacity to meet the demand.

Firms in the services sector expect improvement in business activity, supported by seasonality factors and sector specific growth in demand. However, liquidity constraints, high cost of operations, uncertainty around taxation, and geopolitical risks are likely to weigh down the sector performance.

Purchase prices, though elevated, are lower than those observed in the previous surveys (**Chart 9**).

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 subdued demand.

The findings of the survey show that most respondents are operating below capacity and could utilize the idle capacity if there was an unexpected increase in demand/orders (**Chart 10**). Majority of the firms reported high inventories sufficient to cover a sudden increase in demand. Some firms reported possible difficulties in expansion, particularly due to liquidity constraints, increased cost of borrowing, and increased cost of production, (particularly cost of energy), issues around taxation, and infrastructure.

Chart 9: Expectations of Purchase Prices in 2024 Q2

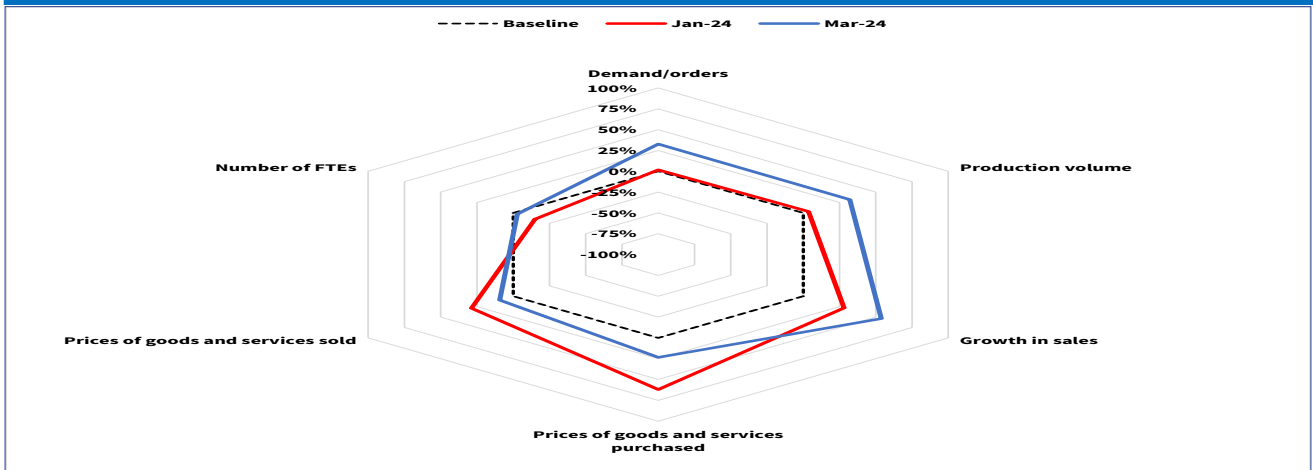
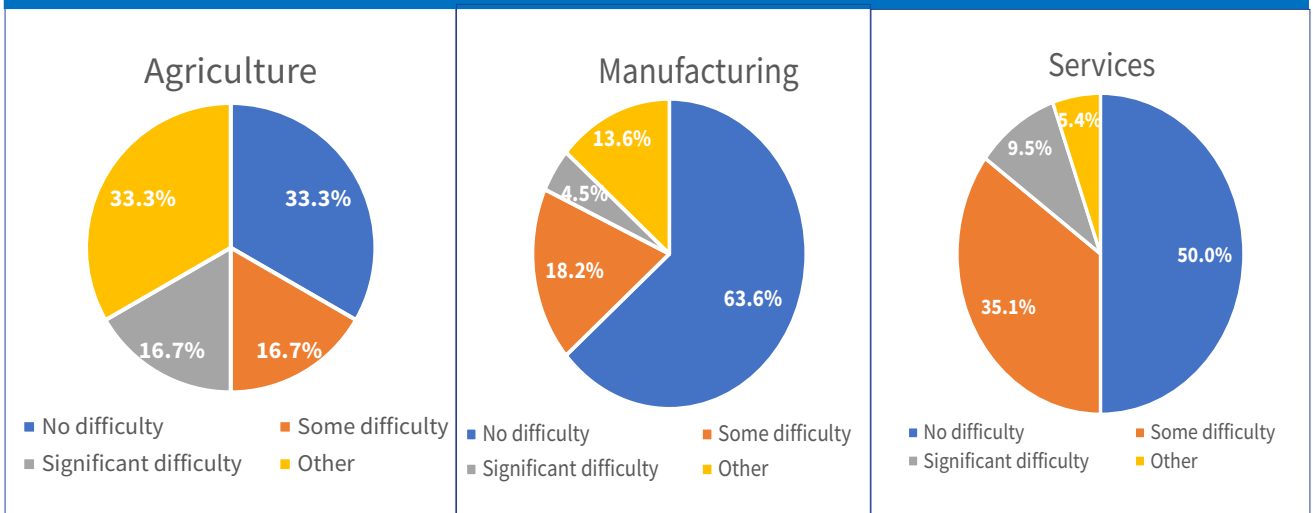


Chart 10: Potential Level of Difficulty in Meeting Increased Demand (percent of respondents)

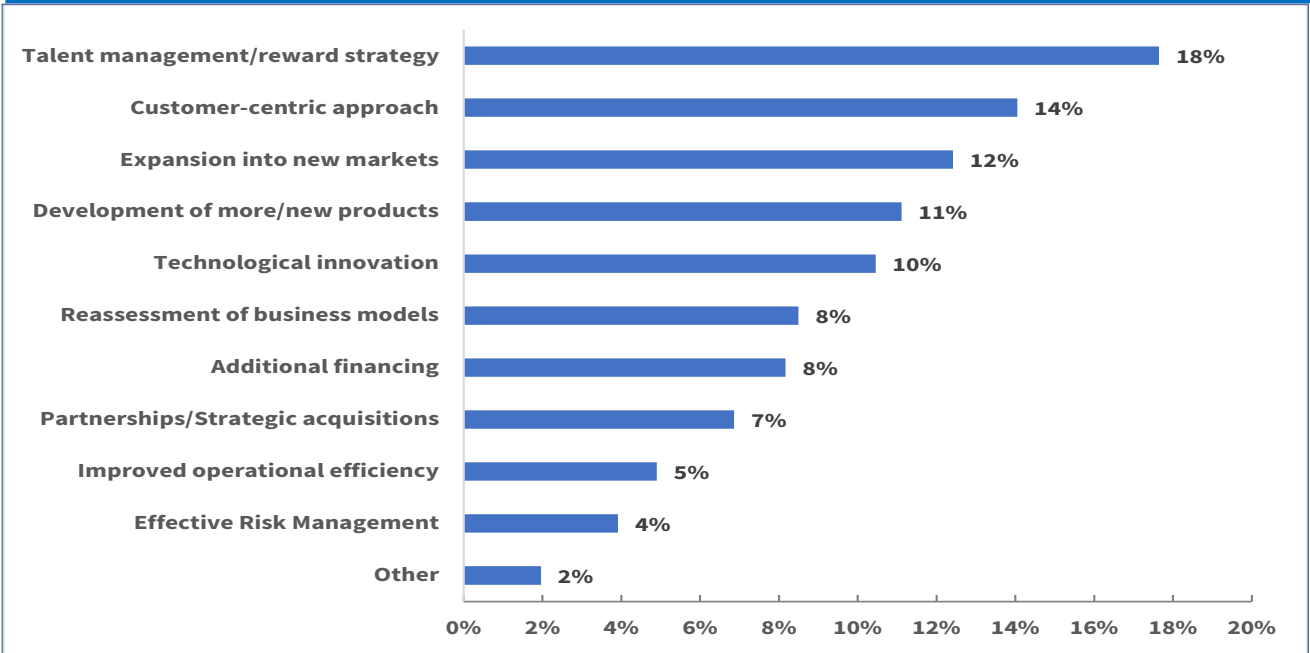


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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.

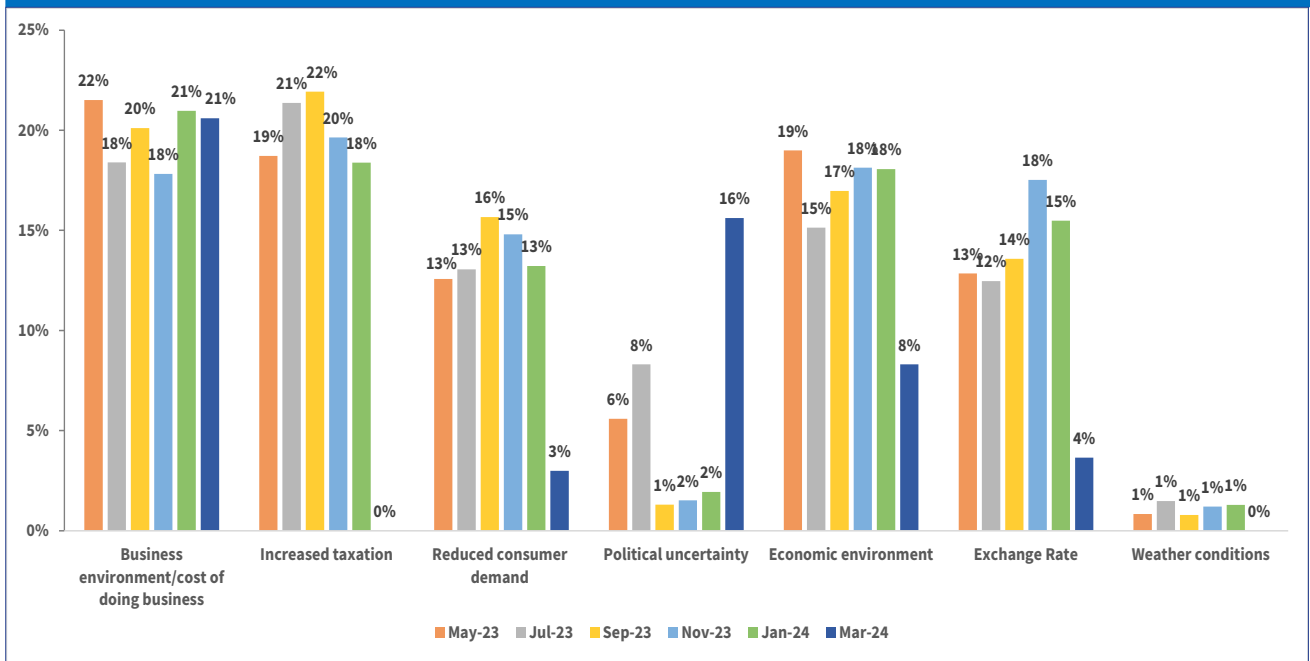
The results show that talent management, customer centricity and expansion into new markets are the key drivers of firms' growth over the next one year (**Chart 11**).

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), increased taxation, the economic environment (high interest rates), and reduced consumer demand (**Chart 12**).

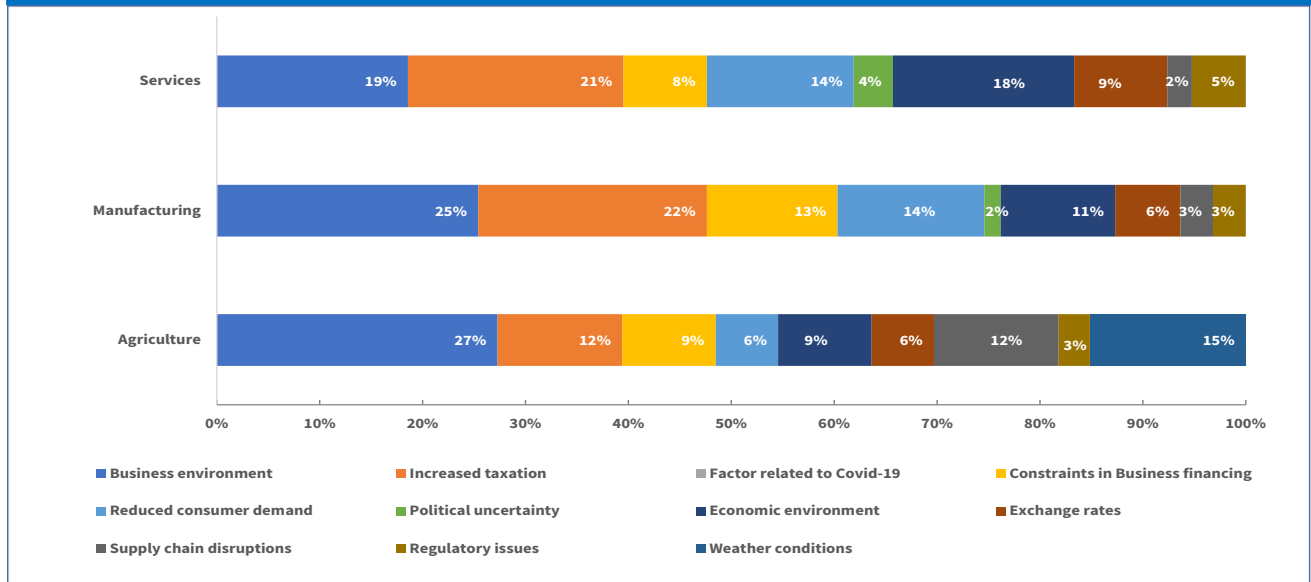
Chart 12: Domestic Factors Constraining Firms' Expansion (percent of respondents)



The business environment, increased taxation, and the economic environment (high interest rates) were key concerns for firms in the services sector. In the manufacturing sector, firms were more concerned about the business environment, increased taxation,

and low consumer demand. Meanwhile, the business environment and the weather conditions were of more concern to the firms in the agriculture sector (Chart 13).

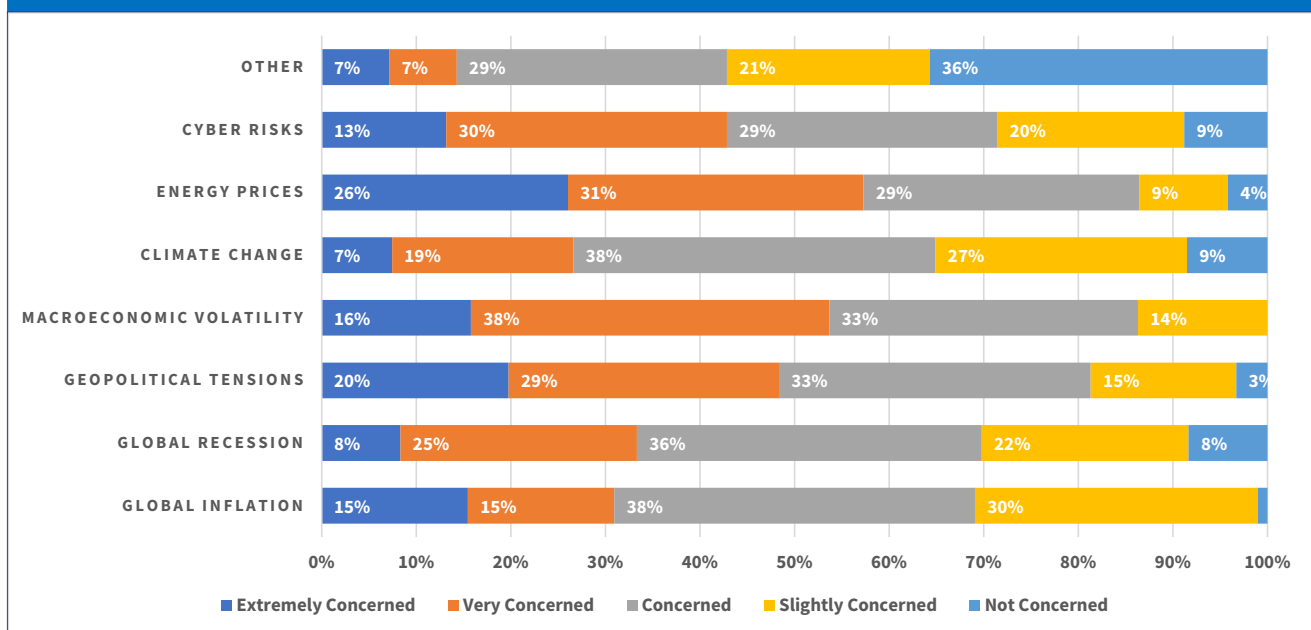
Chart 13: Domestic Factors Constraining Firms' Expansion by Sectors (percent of respondents)



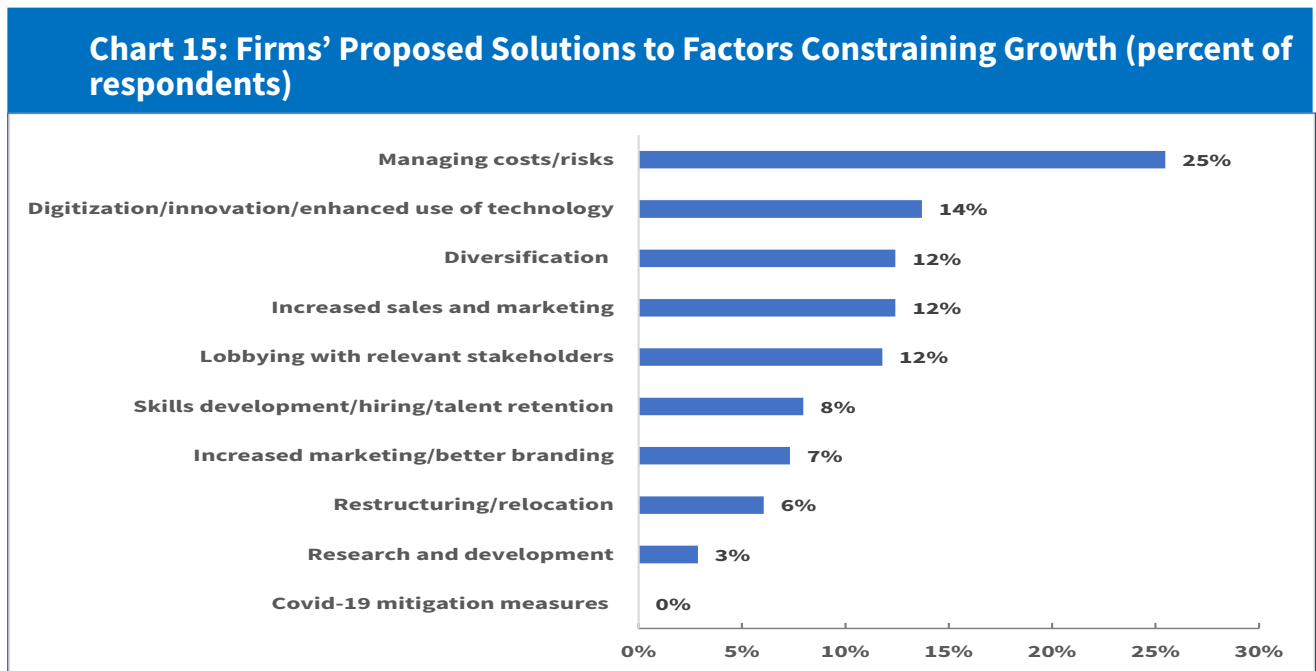
The Survey also sought to establish the top external (non-domestic) threats to business expansion and growth. Most respondents were more concerned about the energy prices, macroeconomic volatility and the geopolitical tensions and its impact on the supply chains (Chart 14). Agriculture sector firms

were most concerned about geopolitical tensions, and climate change, while manufacturing and services sector firms were most concerned about energy prices, macroeconomic volatility and global inflation.

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

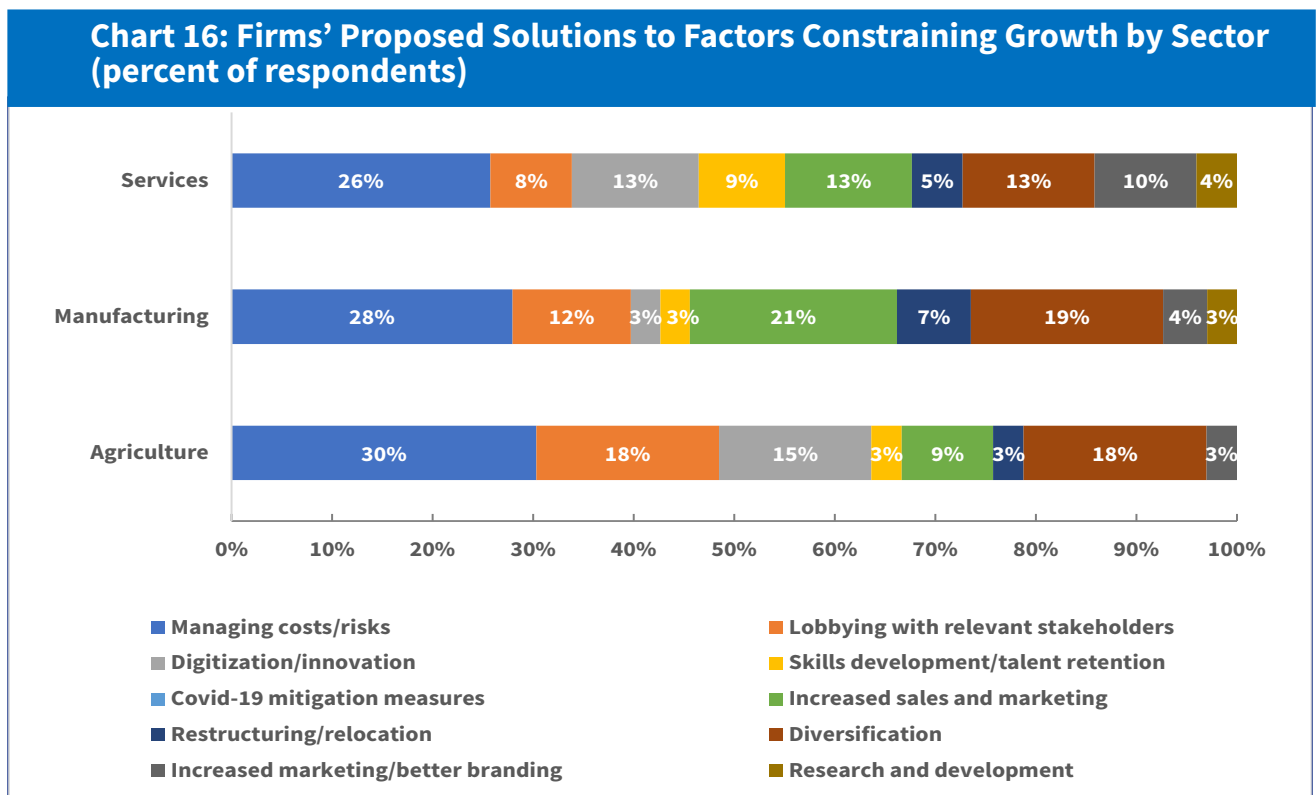


Managing costs and risks, digitization of their operations and innovations, as well as diversification are some of the strategies that firms proposed as solutions to growth constraints (**Chart 15**).



Sector specific solutions to growth constraints include increased sales and marketing (services and manufacturing sector firms) and lobbying with

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

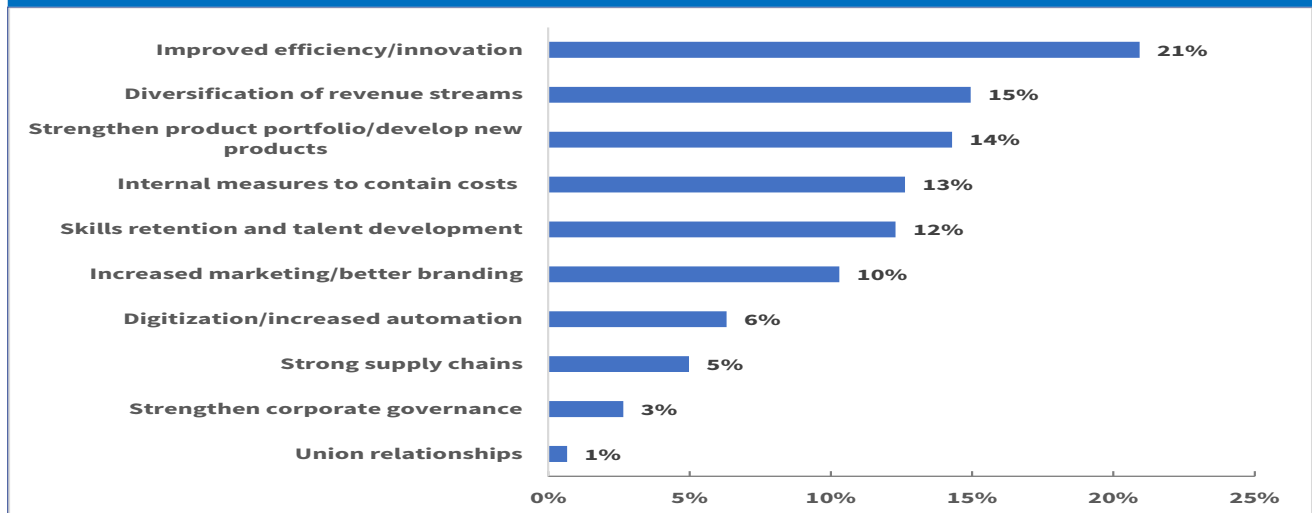


9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

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 innovation, diversification

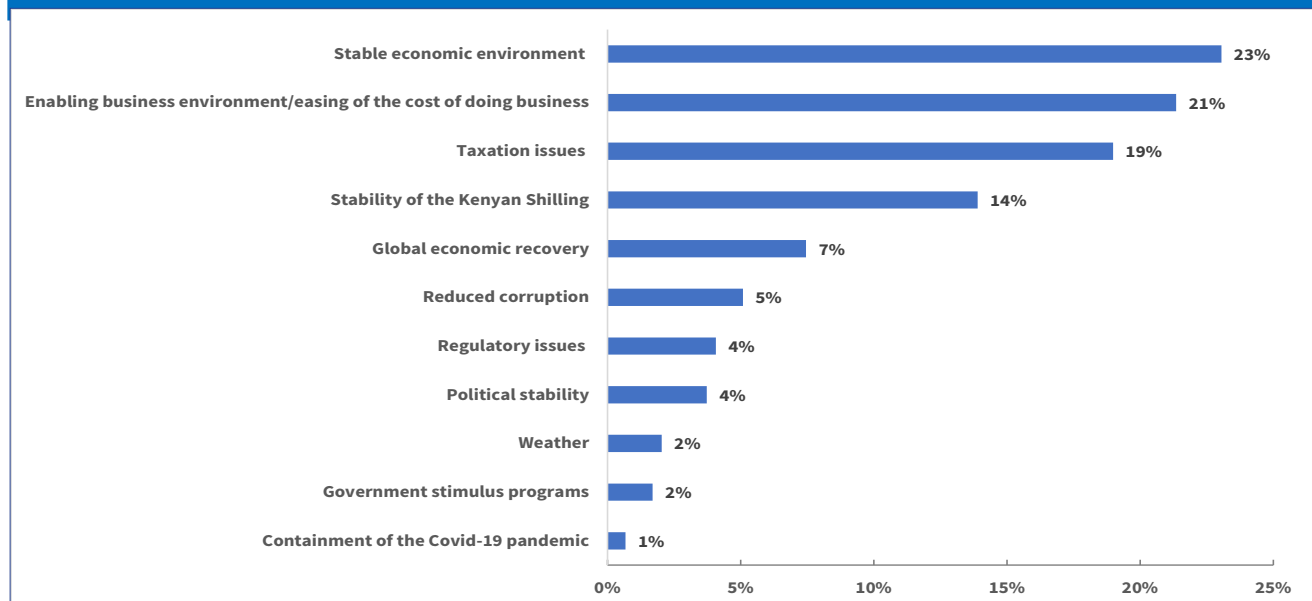
of revenue streams, development of new products and internal measures to control costs as the main internal factors that could strengthen outlook across all sectors (**Chart 17**).

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



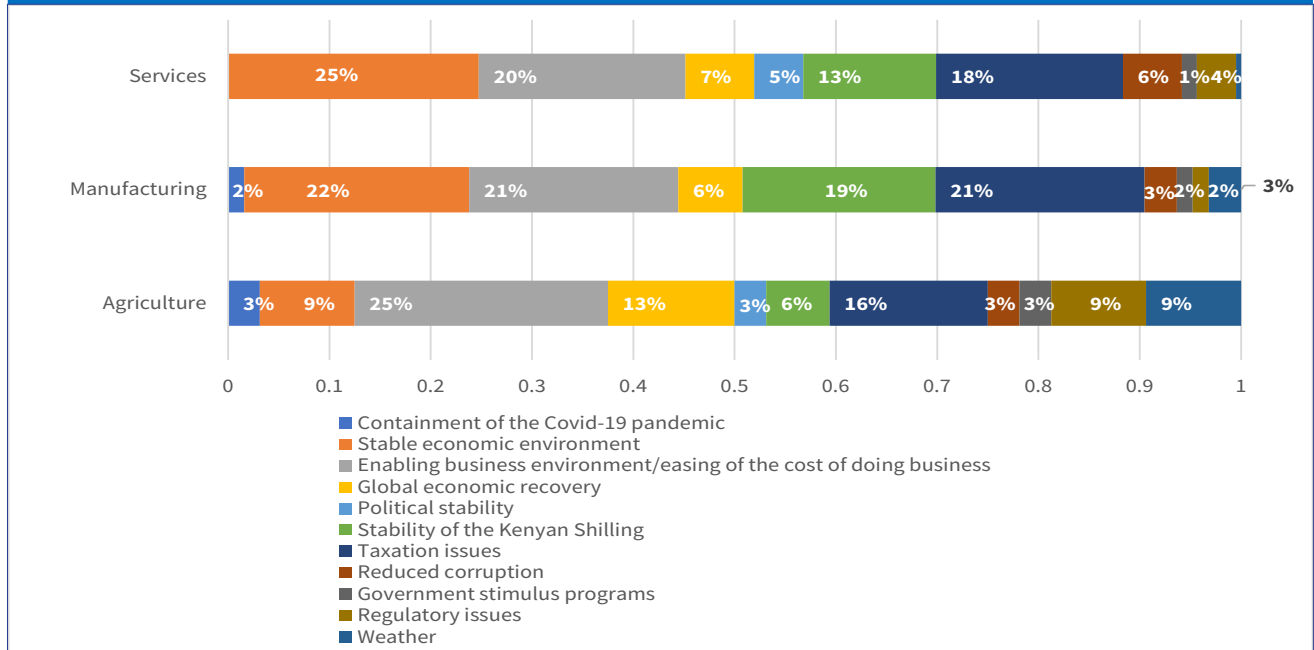
External factors that could strengthen firms outlook over the next 12 months include a stable economic environment, easing cost of doing business, and certainty and resolution of taxation issues (**Chart 18**).

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



Other factors that could strengthen firms' outlook, besides those highlighted in **Chart 18** include continued stability of the Kenya shilling and the recovery of the global economy was equally important factors for all sectors. Meanwhile, weather was reported to be a key factor for the agriculture sector firms (**Chart 19**).

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

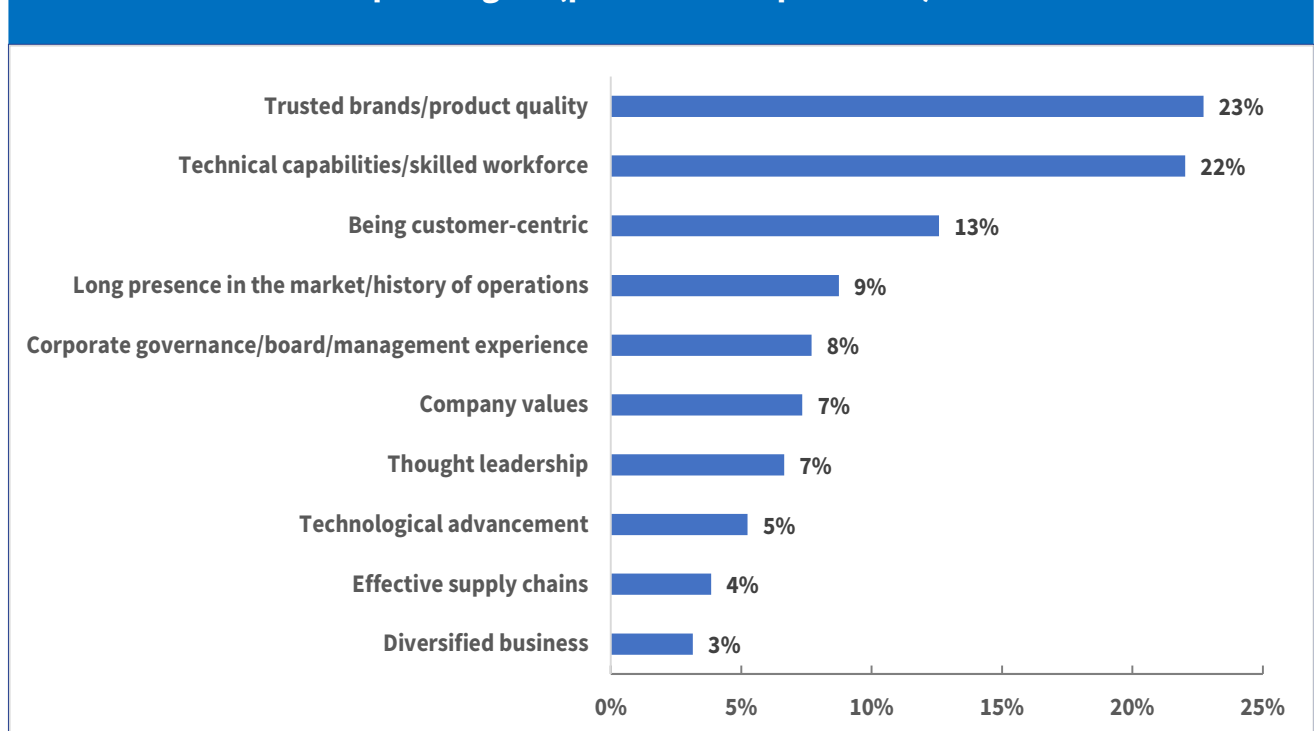


10. TOP COMPANY STRENGTHS

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

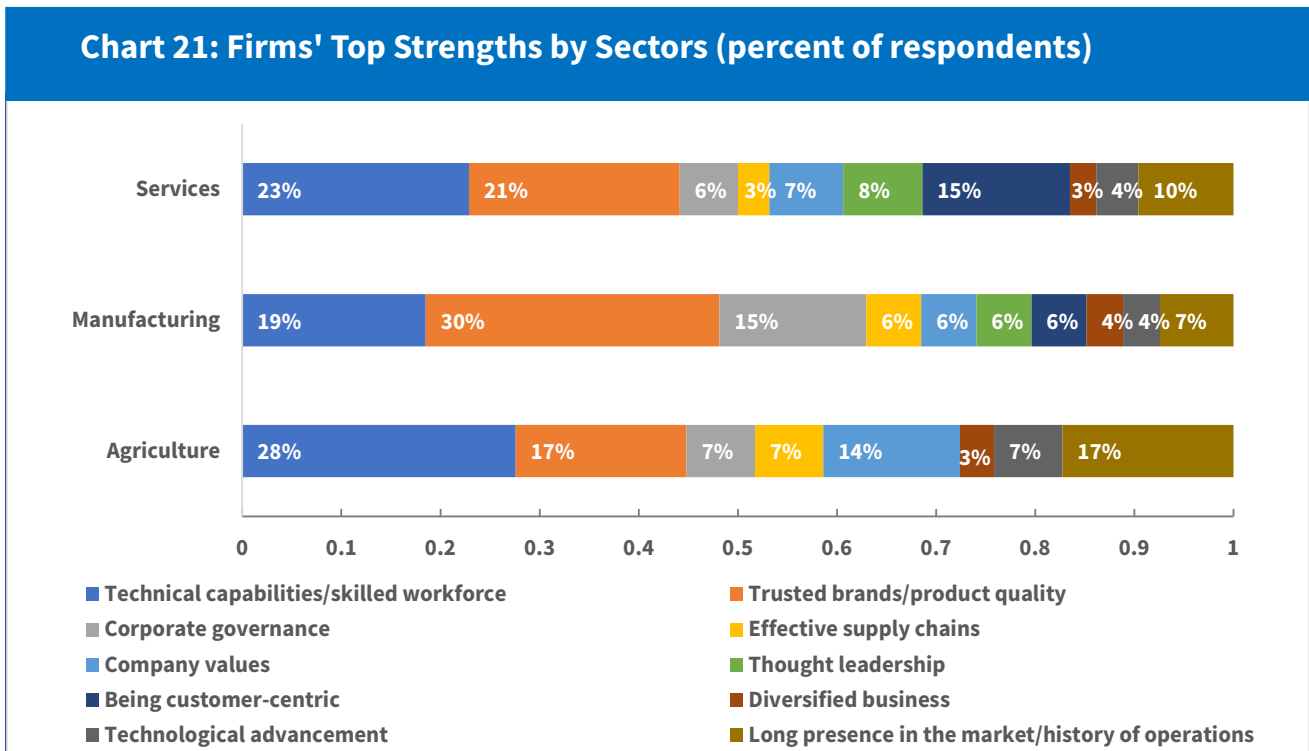
capabilities/skilled workforce, and customer centricity as their top strengths. Equally important is their history/length of presence in the market (**Chart 20**).

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 manufacturing sector firms while thought leadership was another important factor for services

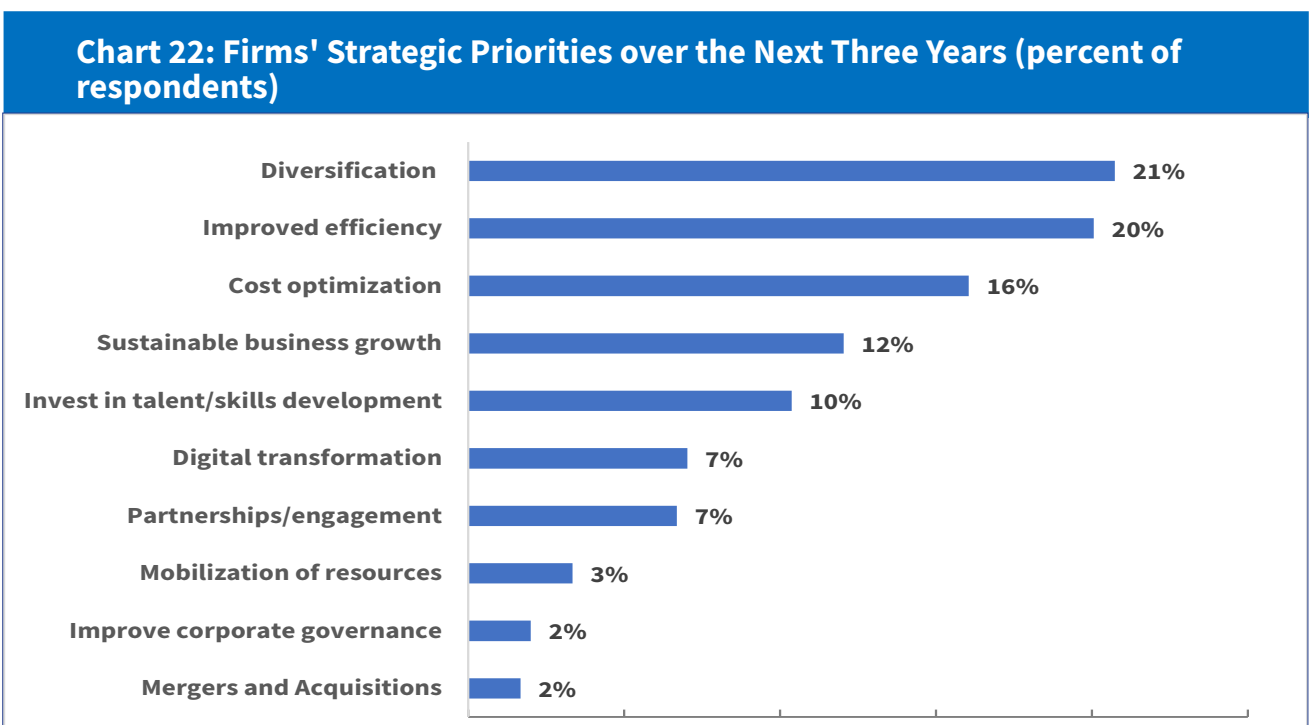
sector firms. Company values and effective supply chains were important factors for agriculture and manufacturing sector firms (**Chart 21**).



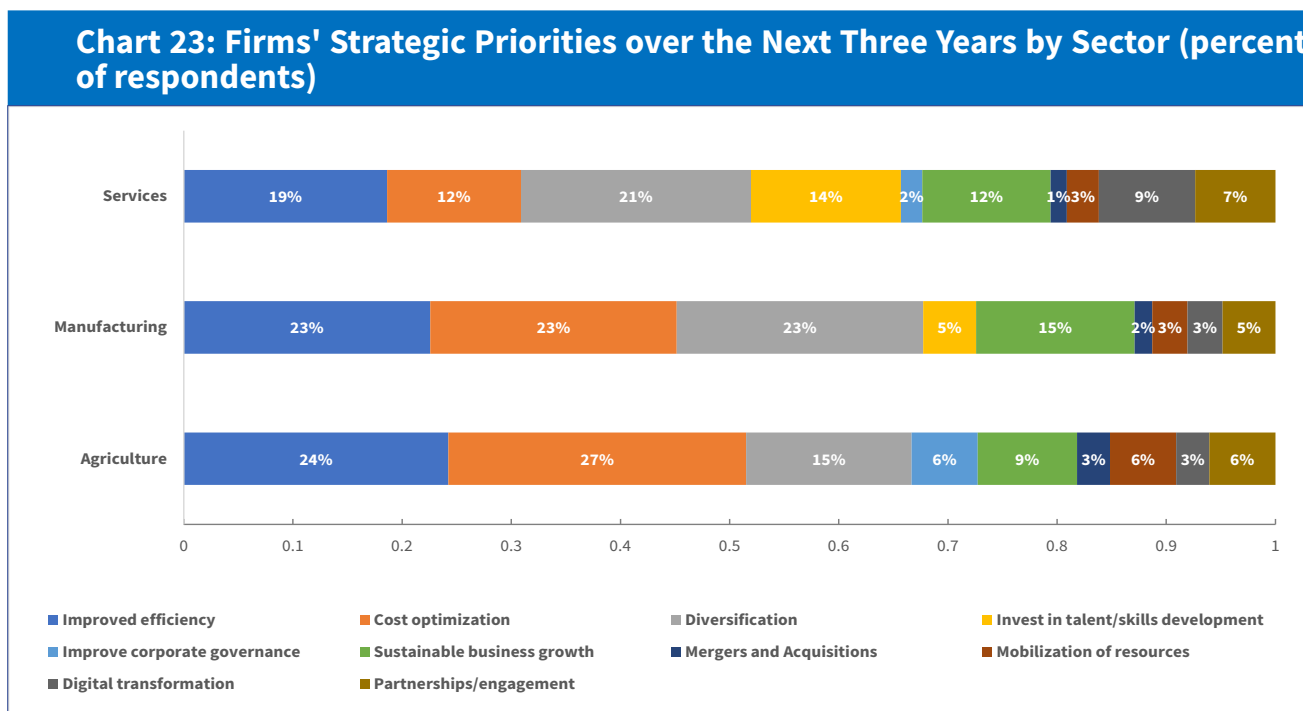
11. STRATEGIC PRIORITIES

The Survey concluded by enquiring from respondents on their strategic priorities over the next three years. According to the survey, firms plan

to diversify their operations, improve efficiency, optimize costs, grow their businesses sustainably, and invest in talent and skills development (**Chart 22**).



Other than the common factors identified across all sectors, firms also identified mobilization of resources and partnerships as important factors (**Chart 23**).



12. CONCLUSION

The March 2024 CEOs Survey revealed improved optimism for company, sectoral and global growth prospects in the next 12 months. Improved optimism for the Kenyan economy was on account of appreciation of the Kenya shilling, easing inflation and good weather prospects. Despite lingering concerns around uncertainty in evolution of geopolitical tensions, optimism for global growth improved, largely driven by the declining commodity prices.

Firms reported improved business activity in 2024 Q1 compared to 2023 Q4. Firms in sectors such as the agriculture, health, real estate, education, ICT and communication, Wholesale and retail trade recorded increased activity, with expectations of further improvement in Q2 2024 compared to Q1 2024.

Talent management, customer centricity and expansion into new markets continue to drive firms' growth, with business environment (cost of doing business), increased taxation, the economic

environment and declining consumer purchasing power (demand) identified as the main domestic constraints to growth and expansion in the near term. External factors that could threaten firms' expansion include energy prices, macroeconomic volatility, geopolitical tensions, and global increase in commodity prices. However, firms plan to employ mitigation measures such managing costs, digitization of processes and innovation, diversification of services and products and increased marketing to manage these constraints.

Increased efficiency and innovation, diversification of revenue streams and development of new products are some of the identified internal factors that could strengthen firms' economic outlook, while external factors such a macroeconomic stability, certainty around taxation issues and easing cost of doing business could positively impact on firms' outlook in 2024.



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