Central Bank of Kenya

CEO's Survey

July 2023

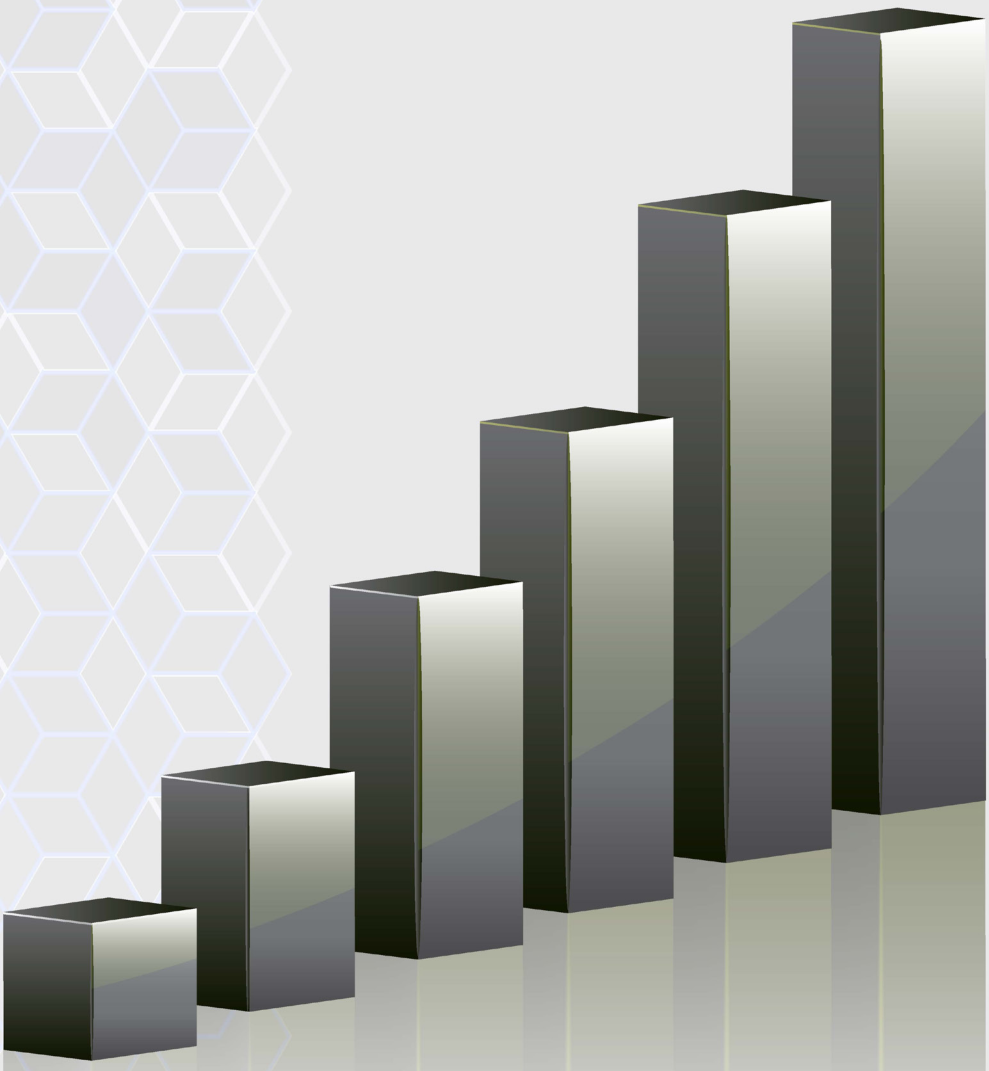


TABLE OF CONTENTS

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 Q2 COMPARED TO 2023 Q1..4
7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q3 COMPARED TO 2023 Q2..7
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 Q2 PURCHASE PRICES..15

ANNEX 2: EXPECTATIONS OF 2023 Q3 BUSINESS ACTIVITY..16

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 July 3 and 14, 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 second quarter of 2023 (Q3). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (July 2023 – June 2024), as well as the strategic directions and solutions to address their key constraining factors over the medium term (July 2023 – June 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 (19 percent), financial services (15 percent), professional services (15 percent), agriculture (10 percent), healthcare and pharmaceuticals (9 per cent), tourism, hotels and restaurants (6 percent), ICT and telecommunications (6 percent), transport and storage (5 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 (62 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses and publicly listed domestic companies. Forty three percent of the respondents had a turnover of over Ksh 1 billion in 2019. In terms of employment, 43 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 remained subdued on account of high interest rates, the political noise in the country, and the weakening Kenyan shilling. However, respondents expressed optimism that the reducing inflationary pressures, expected improved performance of the agricultural sector coupled with the Government focus on the digital economy could support growth.
- Optimism regarding growth prospects for the Kenyan economy weakened with respondents citing the combined impact of the high cost of living and the weakening Shilling as growth-constraining factors.
- Optimism for global growth remained largely the same with respondents noting that risks to

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

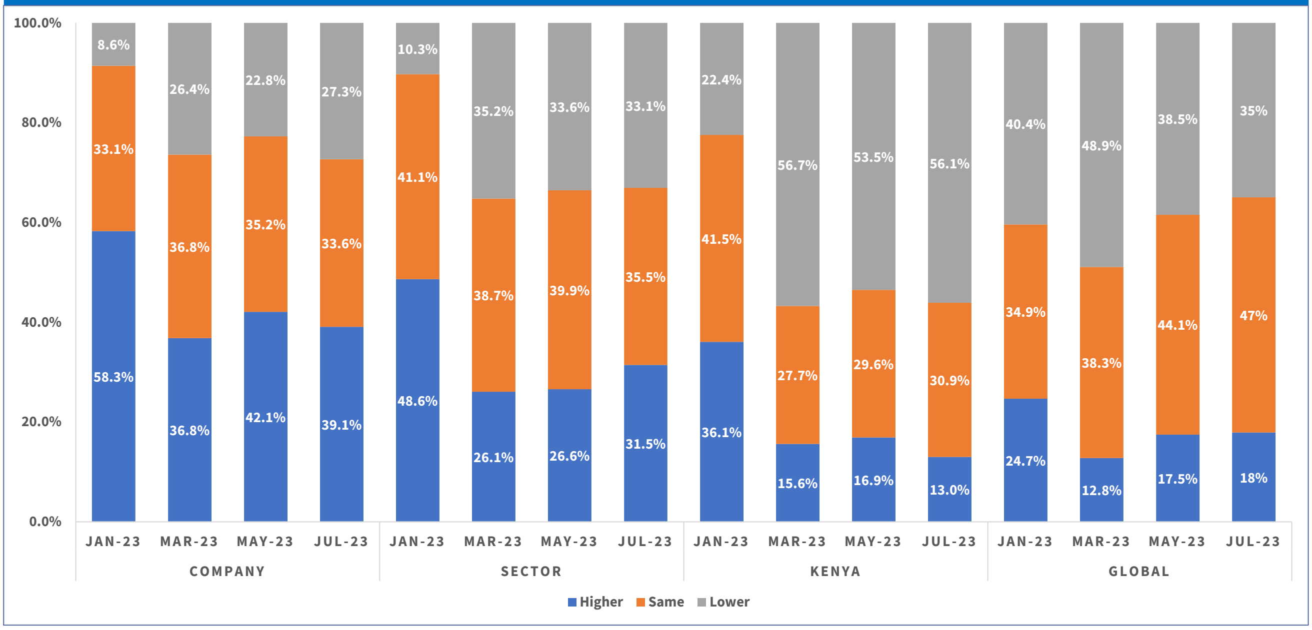
- Respondents reported a slight uptick in business activity in 2023 Q2 compared to 2023 Q1. Increased business activity was reported for firms in financial and ICT services, as well as the agriculture sector, with the latter benefiting from improved exports. Nevertheless, respondents noted that increased taxes, especially on fuel, as well as the cost of food and other commodities had reversed any gains from the improved business activity.
- The outlook for business activity in 2023 Q3 remains mixed. Firms expect business activity to be affected by the elevated cost of doing business and high cost of inputs, notably fuel prices. The adverse impact of weakening Shilling and the continued political noise are also expected to weigh down business activity.
- Talent management, customer centricity, and expansion into new markets were identified as the key drivers of firms' growth.
- 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 global inflation, potential macroeconomic volatility 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, and digitisation of their operations.
- A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms' outlook in 2023.

5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

The Survey assessed the CEOs optimism in the growth prospects for their companies, sectors, and the Kenyan and global economies over the next 12 months. Business optimism for company and sectoral growth prospects remained subdued on account of high interest rates, the political situation in the country, pending bills impacting cash flow and the weakening Kenyan shilling. However, respondents expressed optimism that the reducing inflationary pressures, expected improved performance of the agricultural sector coupled with the Government focus on the digital economy could support growth. **(Chart 1)**. Firms in the agriculture sector attributed their optimism to the adequate rainfall experienced in the country. This was expected to positively impact food production thus lowering the cost of food. Firms in financial services noted increased 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 weakened with respondents citing the combined impact of the high cost of living and the

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



weakening Shilling as growth-constraining factors. Optimism for global growth remained largely the same with respondents noting that risks to global growth remained unchanged, notably the war in Ukraine and the subdued global economic outlook.

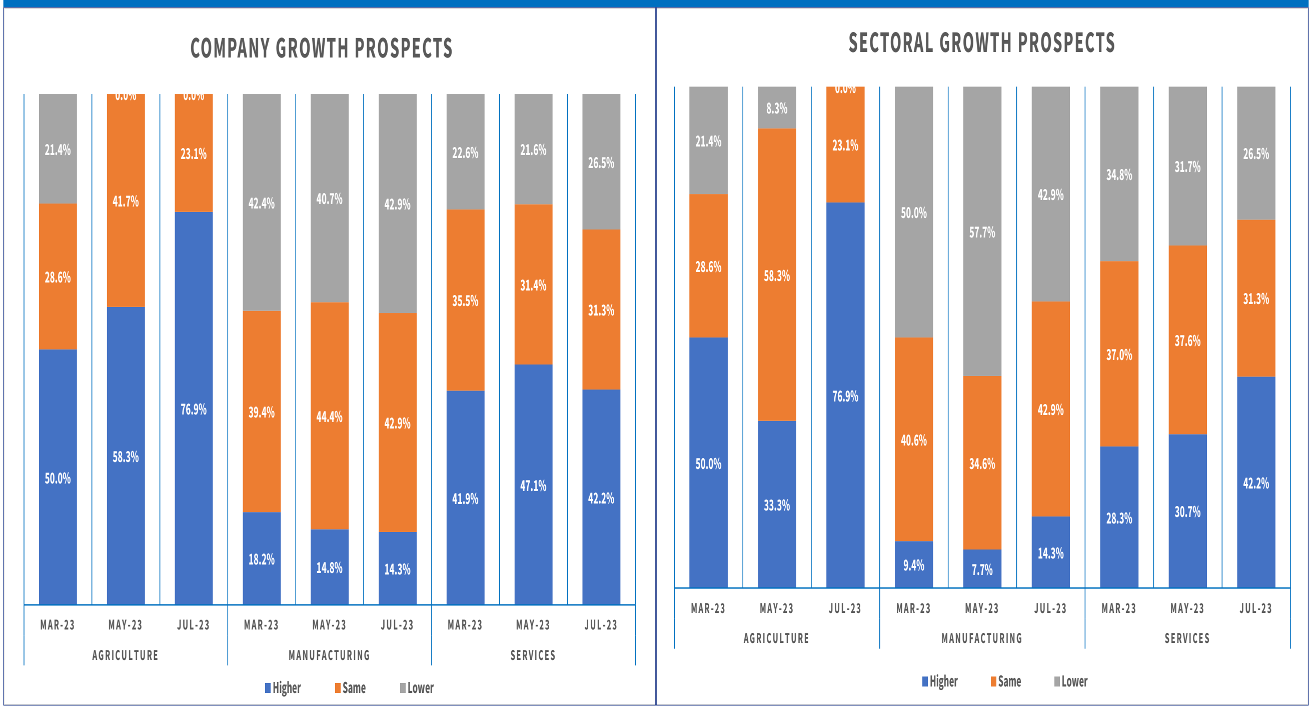
The agriculture sector continued to report higher optimism for growth of their companies in the latest Survey compared to other sectors **(Chart 2)**. Respondents attributed their optimism to the favourable weather conditions, gains from the exchange rate, improved exports and firm-specific growth strategies.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

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 increased production costs due to the weakening Shilling, and the increasing costs of fuel and electricity as constraining factors. Additionally, respondents noted that the anti-government protests had adversely affected business activity. Respondents also highlighted that pending bills and VAT refunds that have been outstanding for long time were creating cash flow challenges for businesses.

In the services sector, majority of the respondents reported higher or the same company and sectoral growth prospects over the next 12 months. Businesses in the healthcare and pharmaceuticals, security as well as tourism and travel industry reported positive growth prospects on account of firm-specific growth strategies, supported by Government interventions in their respective sectors. Nonetheless, respondents expressed concern regarding low consumer spending power, high interest rate and the depreciating shilling.

On the global economy, optimism remained largely the same with respondents noting that risks remained unchanged, 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 Q2 COMPARED TO 2023 Q1

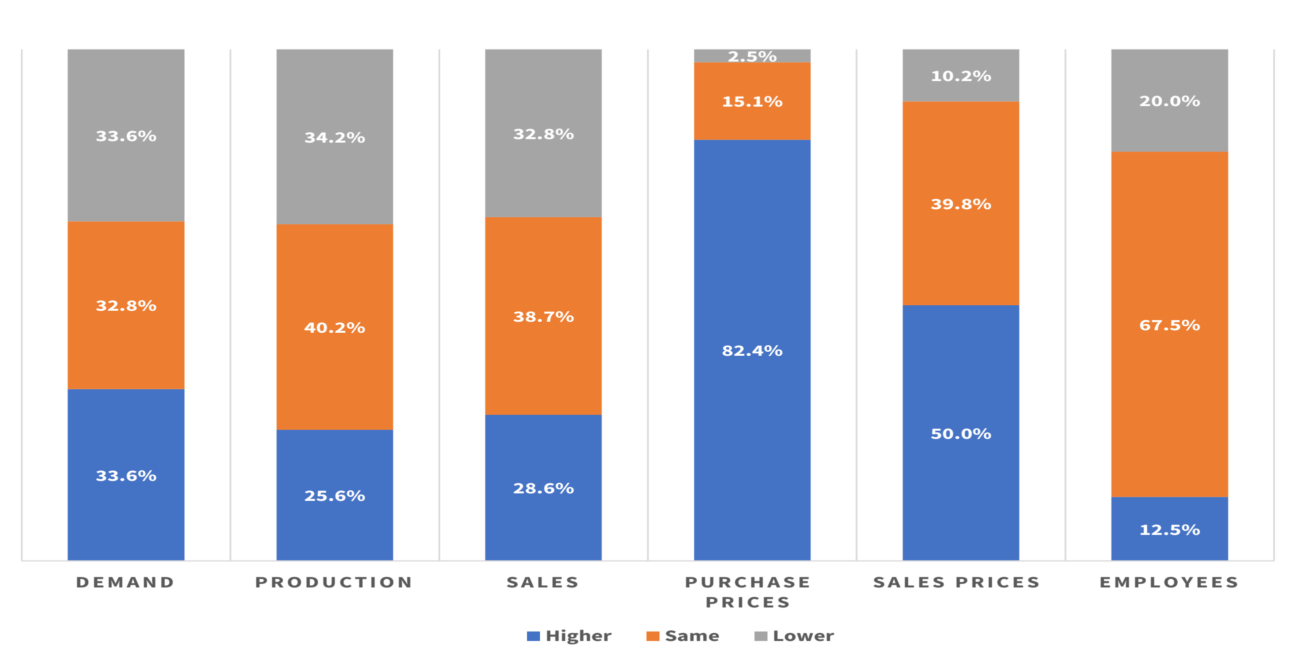
The Survey sought CEOs perceptions on business activity in the second quarter of 2023 compared to the first quarter of 2023. Respondents reported a slight improvement in business activity in 2023 Q2 compared to 2023 Q1. Demand/orders, production volumes and sales were higher or the same for firms in professional and financial services, wholesale and retail, 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 good rainfall across the country. Additionally, exports were boosted by increased demand, especially from China. Nonetheless, input costs remained high due to the weakening Shilling and elevated global commodity prices.

Manufacturing sector firms reported increased demand for local products citing increased prices of imported goods. This increase in demand resulted in improved sales, even as production capacity remained underutilized. Nevertheless, cost of goods continued to increase while production remained depressed due to challenges in accessing raw materials and low consumer demand, respectively.

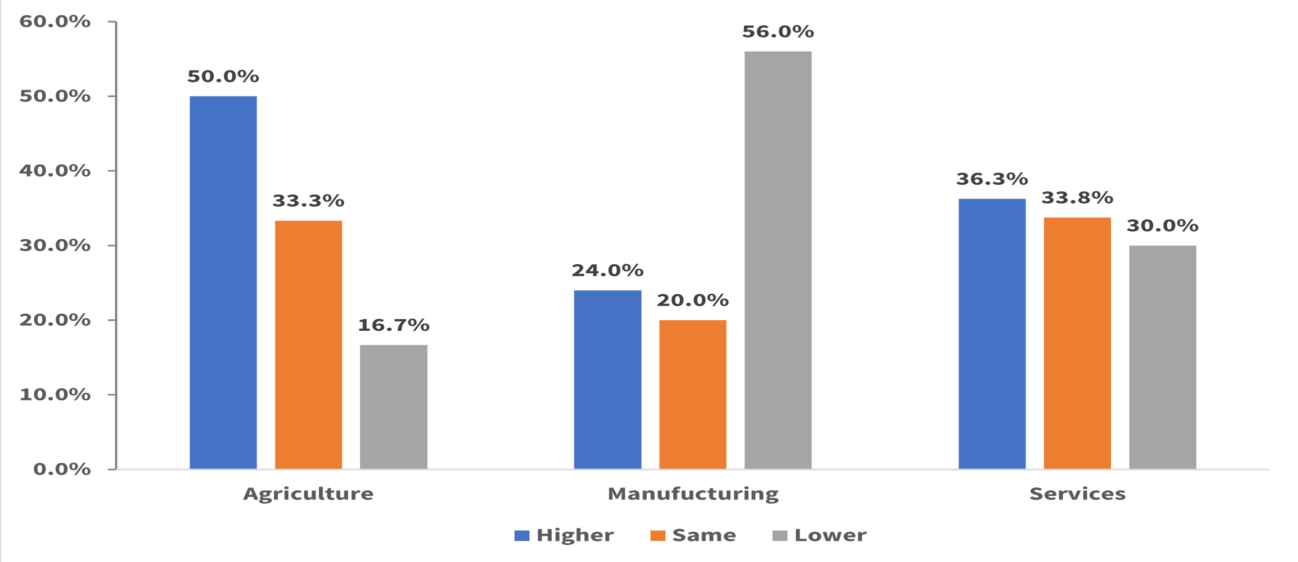
In the services sector, firms in specific sectors reported improved business activity notably professional and financial services, wholesale and retail, and tourism sectors. Increased input prices were reported, with firms unable to increase output prices. In some instances, firms discontinued projects due to clients' reluctance to adjust costs in view of fluctuating input costs. This consequently impacted employment. Sluggish sales, inflationary pressures leading to increased input costs, particularly fuel, and high cost of living as well as higher staff costs were cited as factors that constrained businesses in 2023 Q2.

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



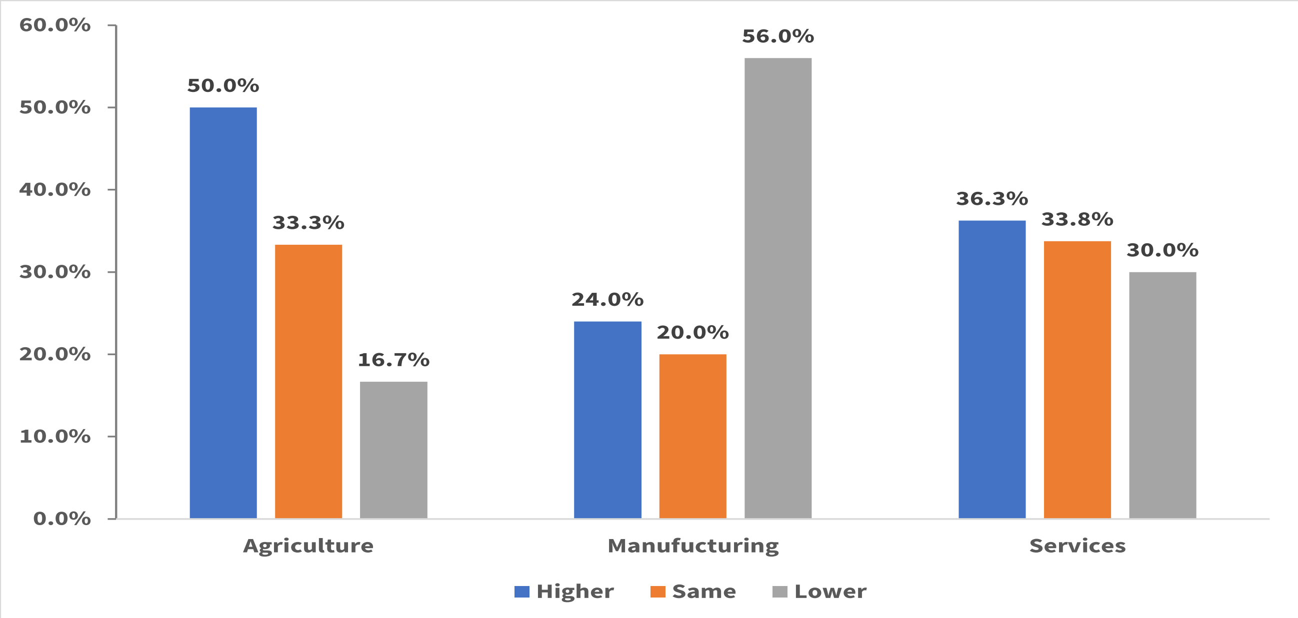
In terms of sectoral demand in the second quarter of 2023, majority of firms in agriculture sector reported higher demand/orders. For the manufacturing sector however, majority of respondents reported lower demand. The services sector reported mixed performance, pointing to challenges for firms in specific sub-sectors **(Chart 4)**.

Chart 4: Demand/Orders in 2023 Q2 Relative to 2023 Q1 by Sectors (percent of respondents)



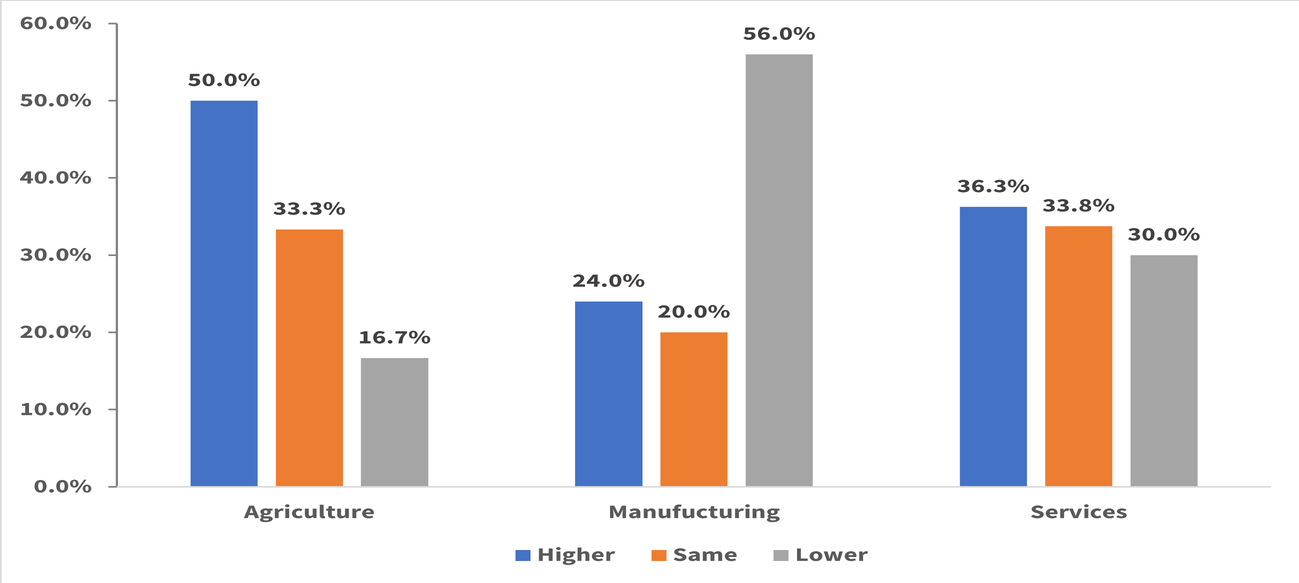
Agriculture sector firms reported higher sales growth compared to other sectors **(Chart 5)**. This was attributed to improved demand for exports.

Chart 5: Sales Growth in 2023 Q2 relative to 2023 Q1 by Sectors (percent of respondents)



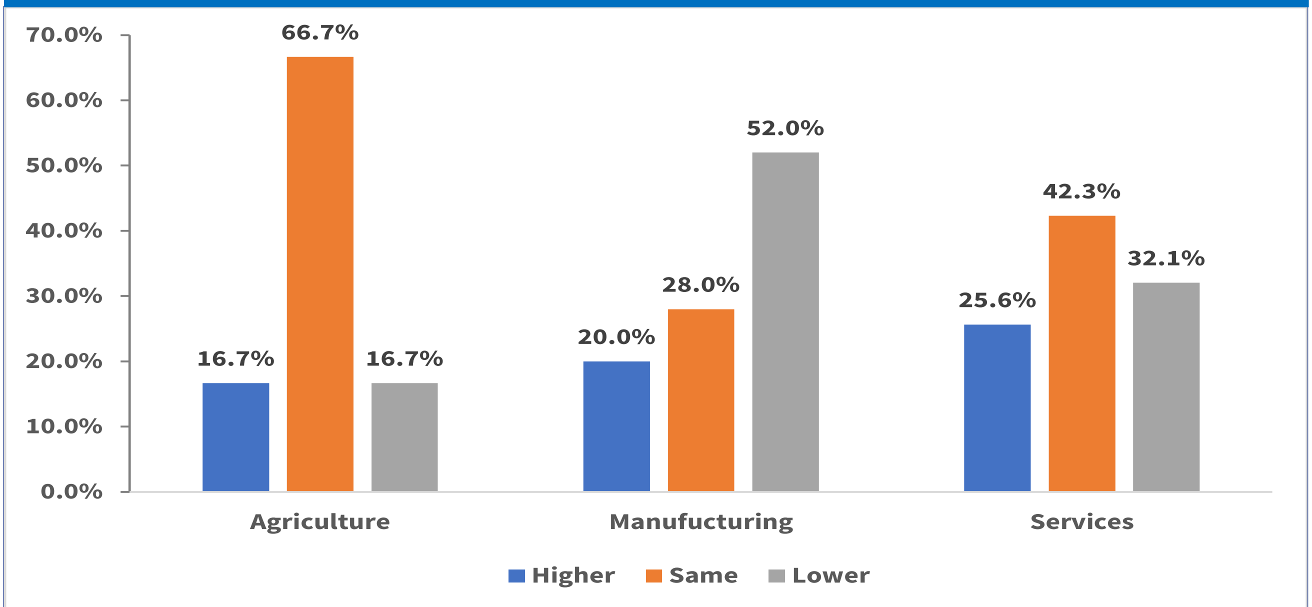
Elevated inflation and the impact of a weakening Shilling continued to affect purchase prices **(Chart 6 and Annex 1)**. About 84 percent and 79 percent of manufacturing and services sector respondents, respectively reported higher purchase price.

Chart 6: Purchase Prices in 2023 Q2 Compared to 2023 Q2 by Sectors (percent of respondents)



Production volumes remained largely the same for majority of respondents in the agriculture sector, in anticipation of the harvest season. For majority of firms in the services sectors, however, production volumes remained the same due to reduced consumer demand. Manufacturing sector firms continued to report lower production volumes due to challenges in accessing raw materials **(Chart 7)**.

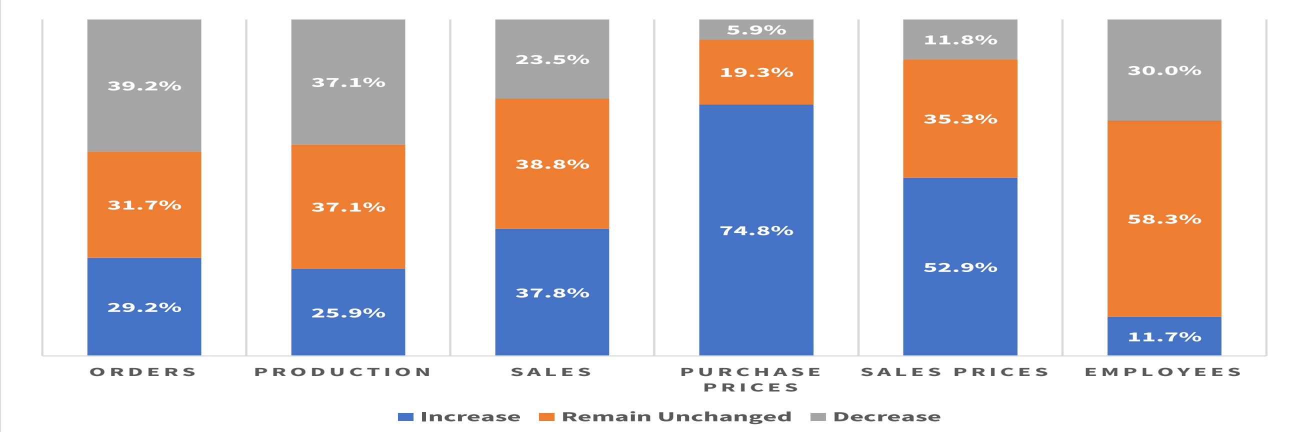
Chart 7: Production Volumes in 2023 Q2 Compared to 2023 Q1 by Sectors (percent of respondents)



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 remain mixed in Q3. **(Chart 8)**. Firms in the agriculture sector expect that business activity will remain largely the same.

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



While agricultural output will likely be supported by the good rainfall, orders and sales are likely to remain subdued due to the high cost of living and high food prices.

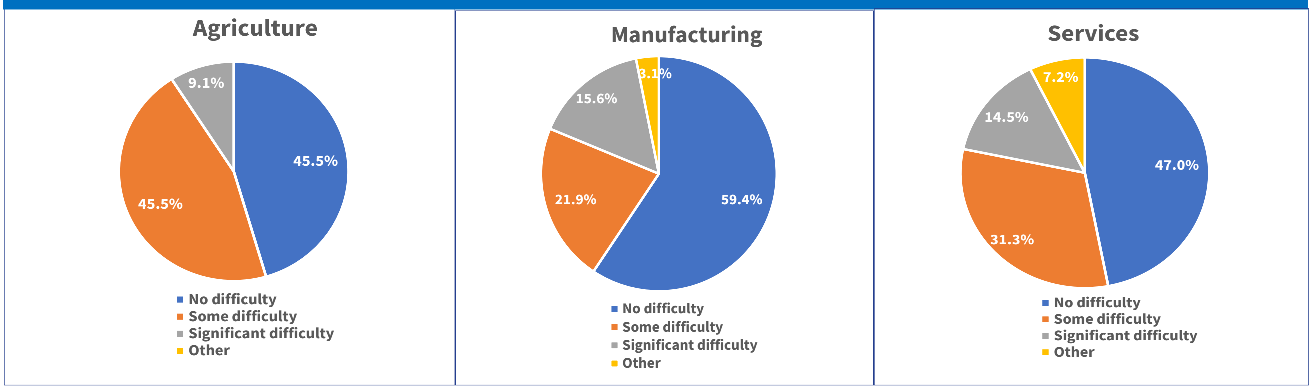
Businesses in the manufacturing sector do not anticipate an improvement in the business conditions. Respondents stated that the new tax measures could exert inflationary pressures while also reducing consumer demand. Disposable incomes are likely to drop with conservative consumers adjusting spending habits, hence reduced orders and sales.

In the services sector, firms in financial services and ICT expect increased demand for their services, as do those in tourism. Nonetheless, majority of respondents anticipated that the prevailing political noise and high cost of doing business will slow down business activity. Seasonal factors are also expected to contribute to a slowdown in activity for firms in transport and storage, since the quarter coincides with the start of the government financial year.

Purchase prices are expected to remain elevated for firms across all sectors **(Annex 2)**. 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 that capacity was still significantly higher than the demand hence abundant room for expansion. Further, some firms reported being well financed hence no difficulty in meeting increased demand.

Firms which reported possible difficulty in expanding their operations cited lack of orders and price pressures from customers which was making it difficult to operate at full capacity. Other reasons cited included unpredictability of the business environment and high cost of credit.

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

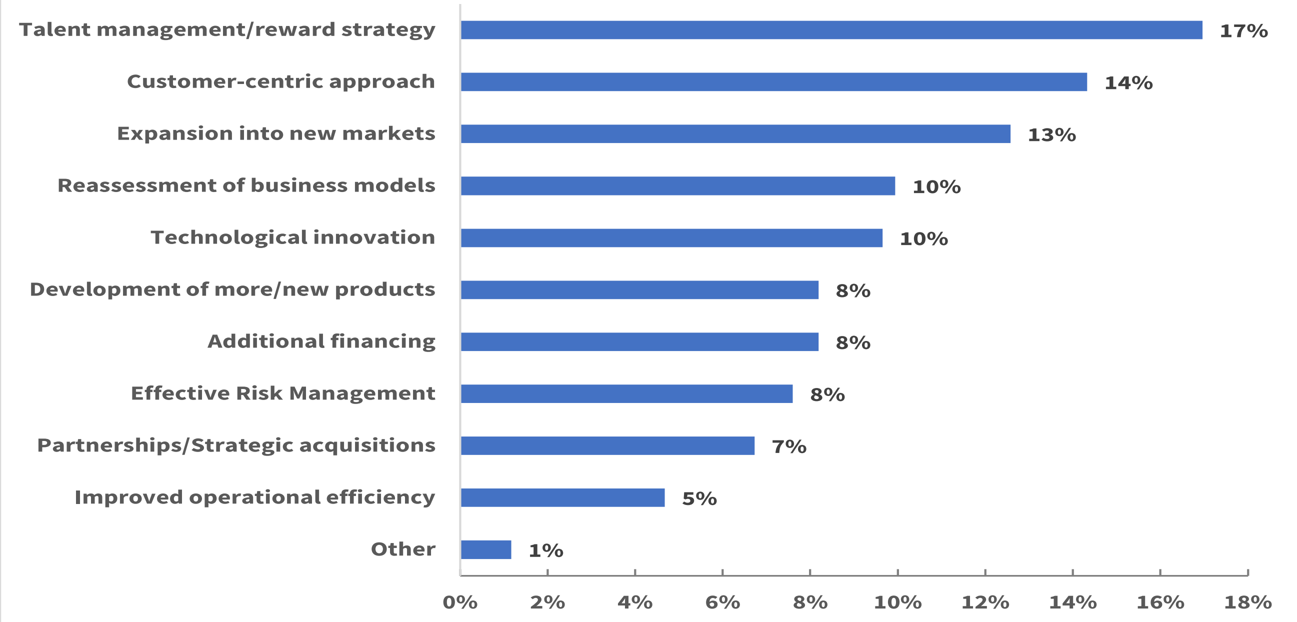


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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.

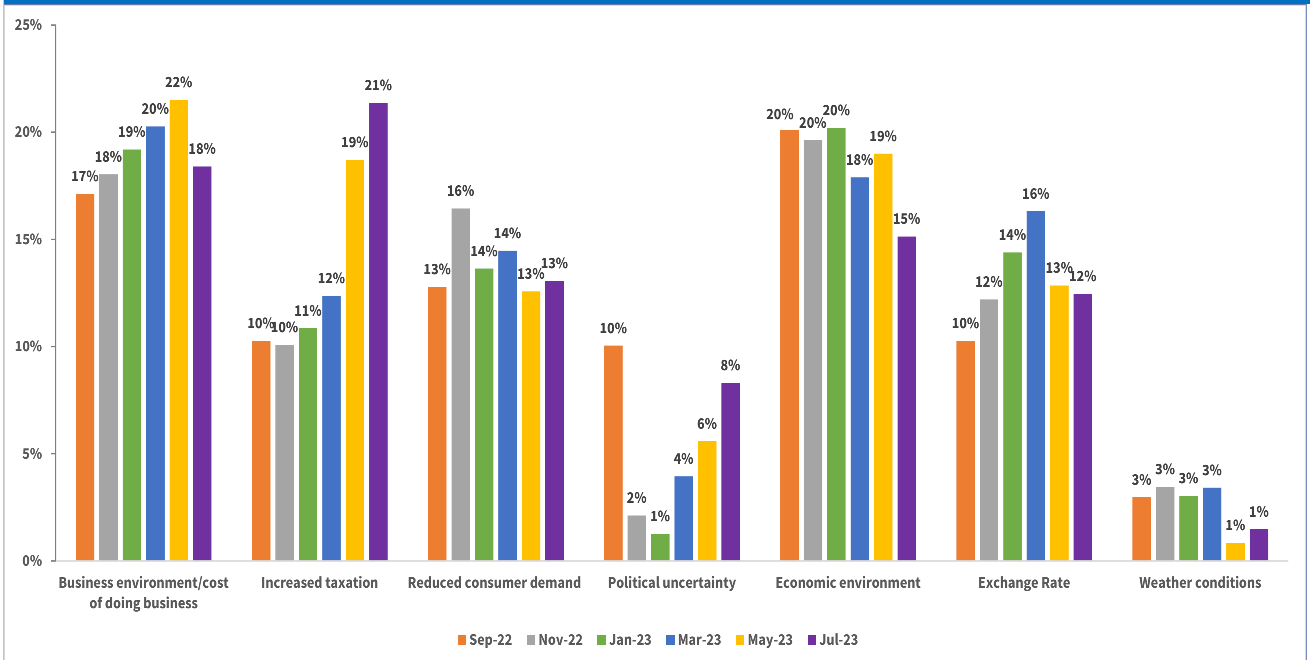
The results show that talent management, customer centricity and expansion into new markets are the key drivers of firms' growth over the next one year **(Chart 10)**.

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



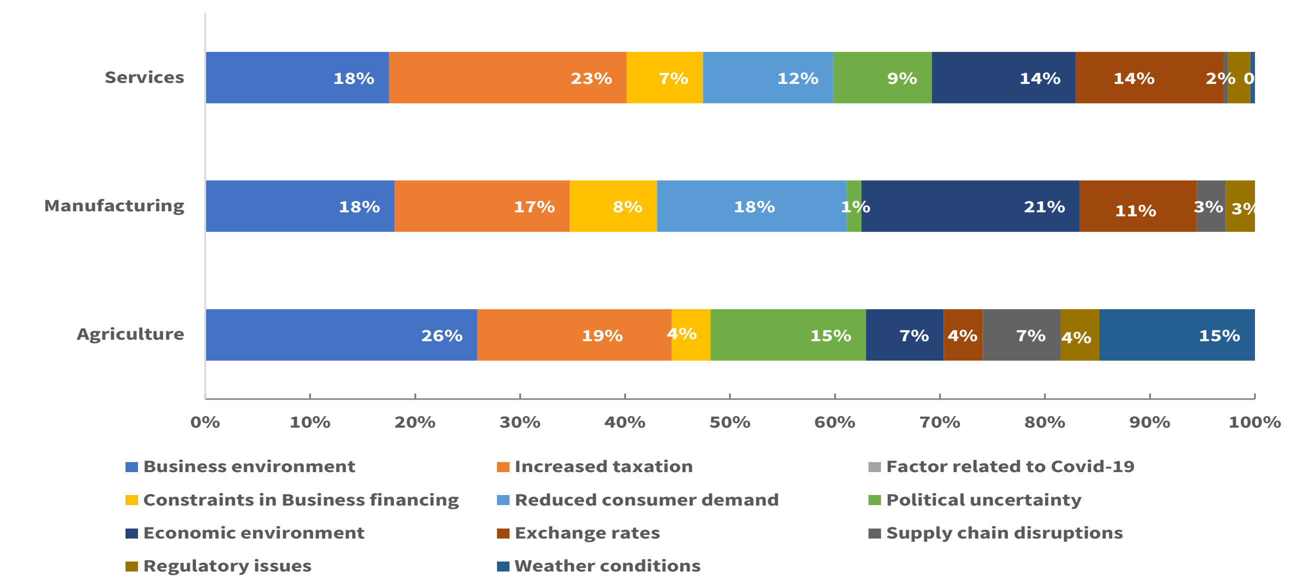
In terms of domestic factors that could constrain their growth, respondents continued to highlight increased taxation, the business environment (cost of doing business) and the economic environment (high inflation). While concerns over political noise have edged up, concerns on the performance of the Kenya Shilling have reduced albeit only slightly **(Chart 11)**.

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



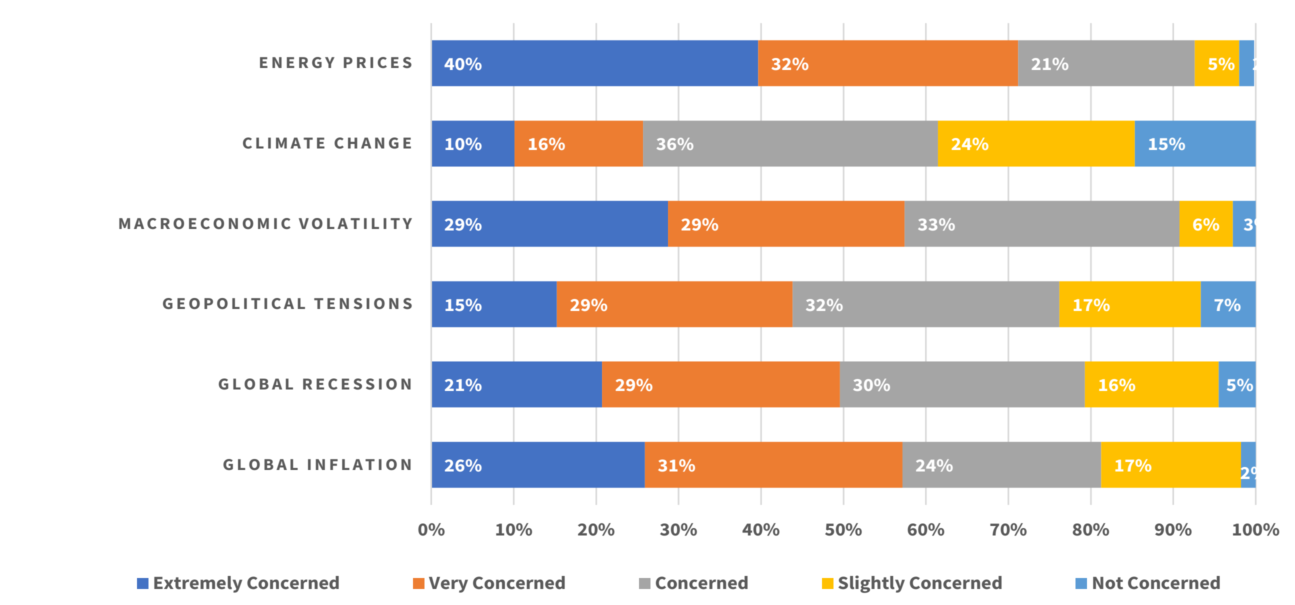
The business environment and increased taxation was of greater concern for firms in the services and agriculture sectors. Firms in the manufacturing sector on the other hand were most concerned about the economic environment, with the business environment and reduced consumer demand ranking equally. Other highly ranking concerns were the exchange rate and reduced consumer demand, and weather conditions, particularly for agriculture sector firms **(Chart 12)**.

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



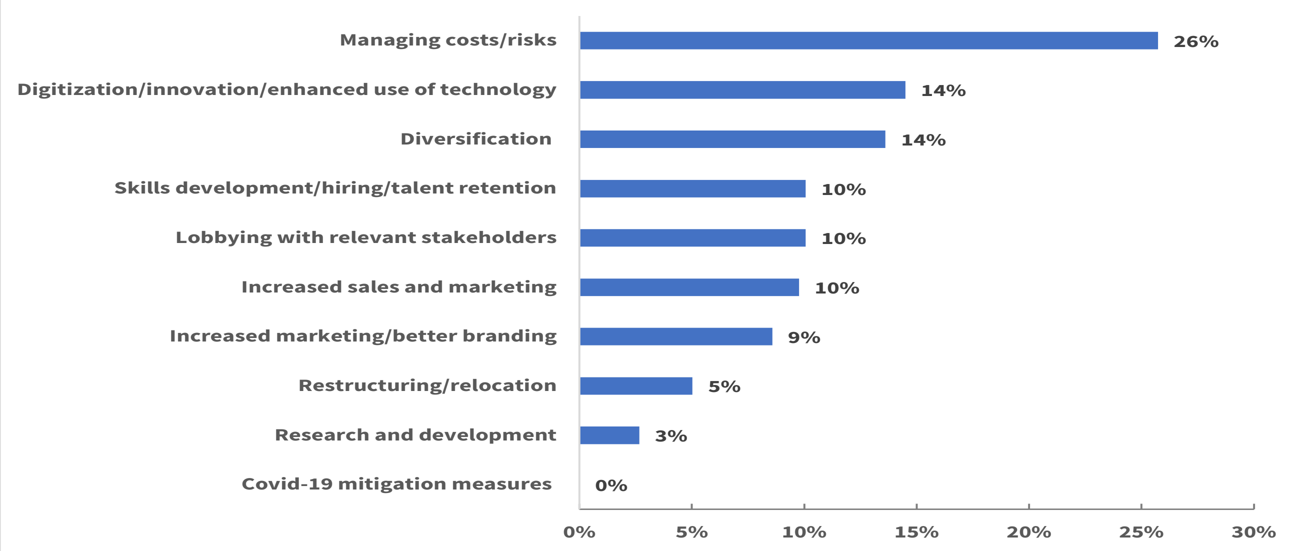
The Survey also sought to establish the top external (non-domestic) threats impacting businesses. Respondents were most concerned about energy prices, global inflation, and macroeconomic volatility **(Chart 13)**. Agriculture sector firms were most concerned about climate change and energy prices while manufacturing and services sector firms were most concerned about energy prices and global inflation.

Chart 13: External Threats Impacting Firms' Expansion (percent of respondents)



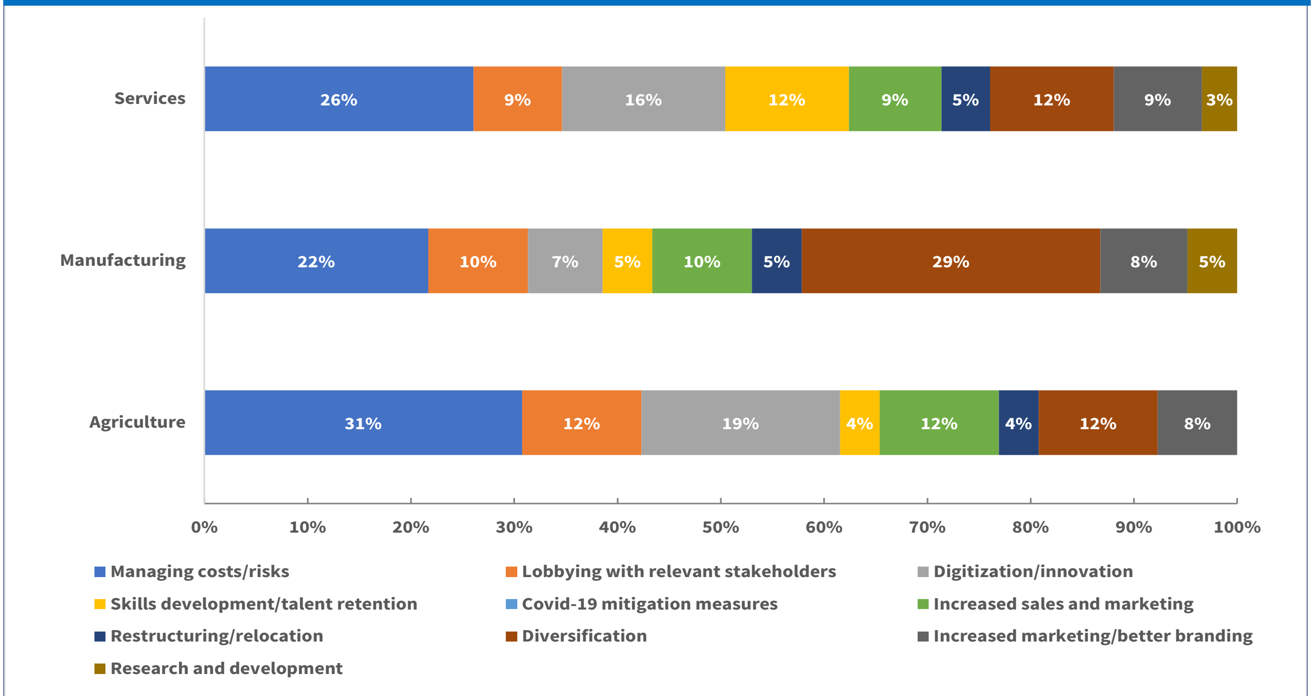
To mitigate the factors constraining growth/expansion, firms proposed various solutions including management of costs and risks, digitization of their operations, and diversification **(Chart 14)**.

Chart 14: Firms' Proposed Solutions to Factors Constraining Growth (percent of respondents)



Other important factors for respective sectors were lobbying with relevant stakeholders and skills development (services sector), and increased sales and marketing for manufacturing and agriculture sectors **(Chart 15)**.

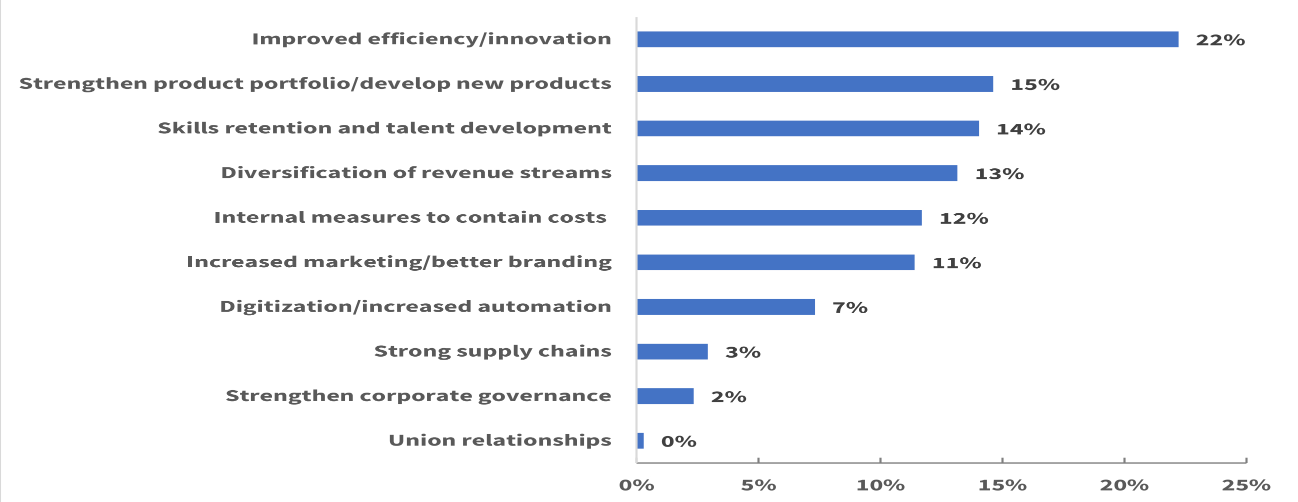
Chart 15: Firms' Proposed Solutions to Factors Constraining Growth by Sector (percent of respondents)



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

The Survey sought to establish internal and external factors that could strengthen firms' outlook over the next 12 months. The Survey results highlighted improved efficiency and 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)**.

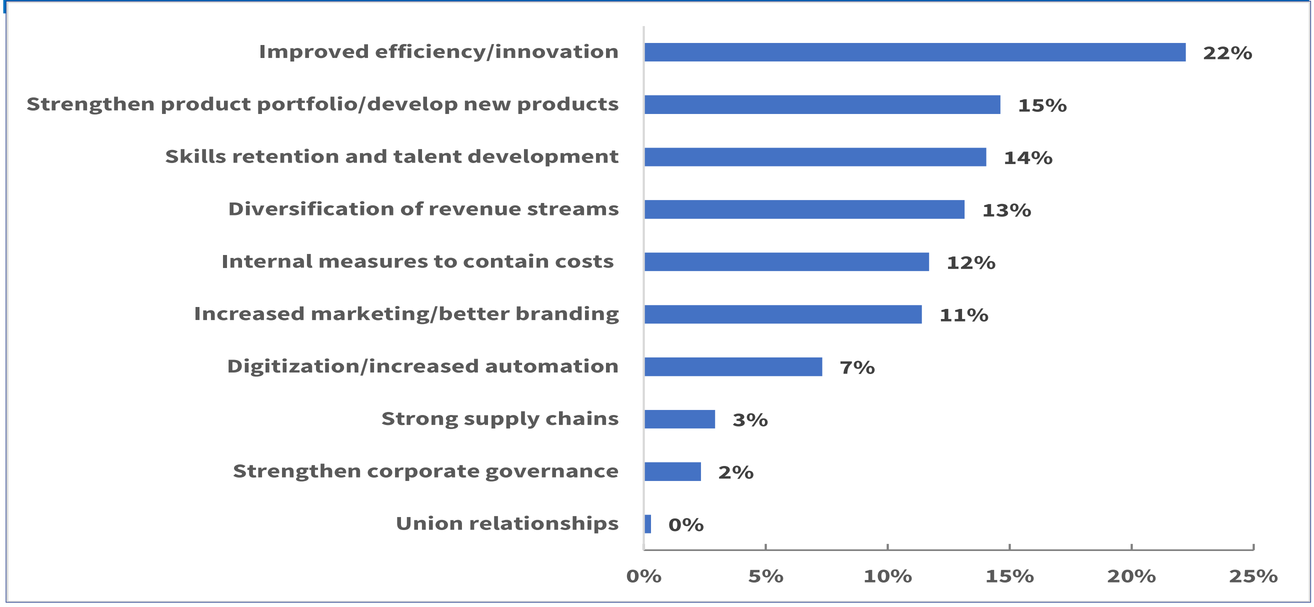
Chart 16: Internal Factors that could Strengthen Firms' Outlook (percent of respondents)



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 all sectors.

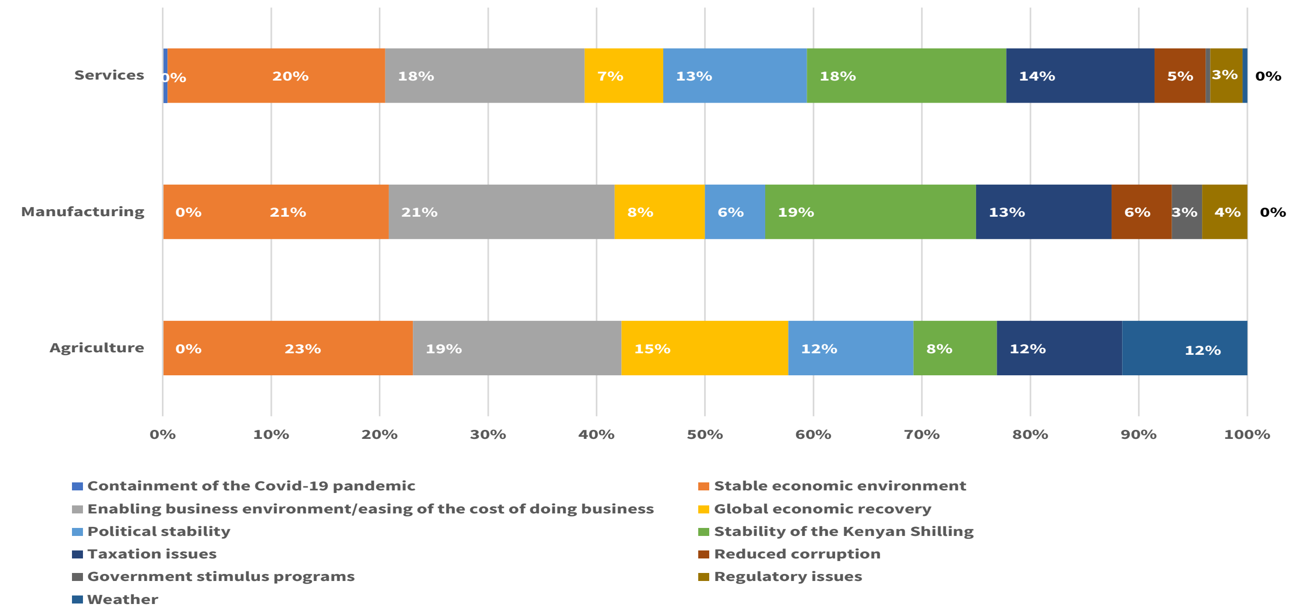
Firms continued to identify a stable economic environment, an enabling business environment and stability of the Kenyan Shilling as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months **(Chart 17)**.

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



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

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



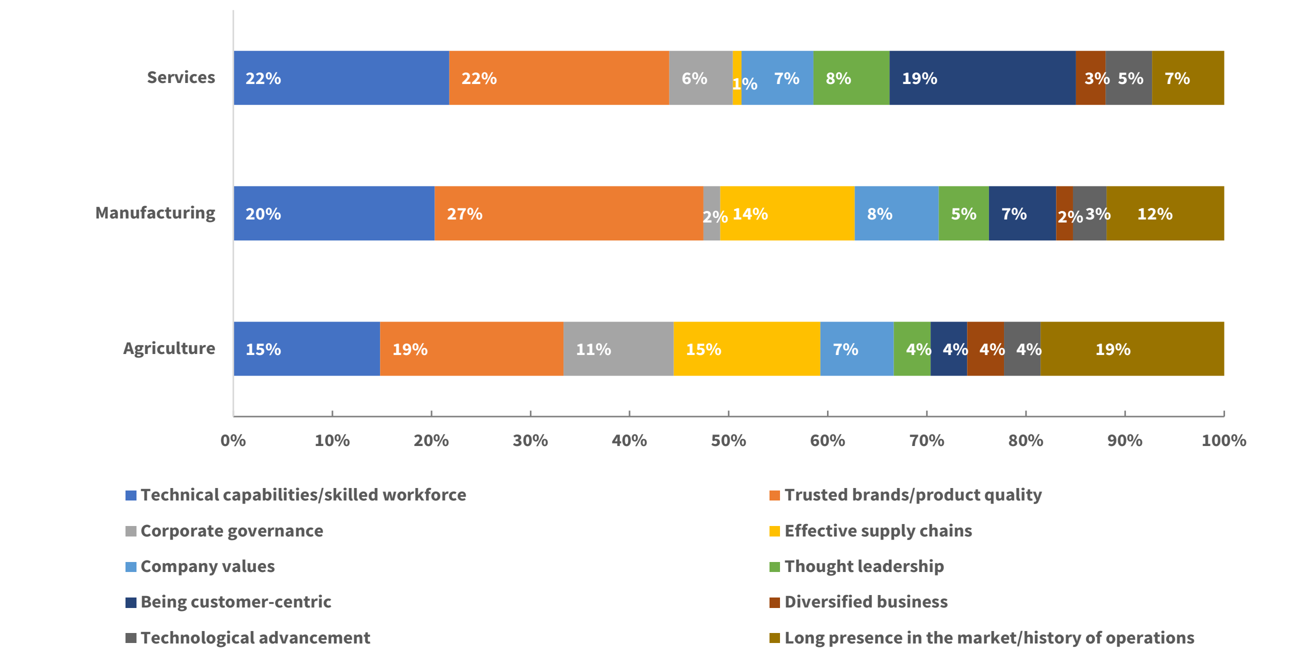
10. TOP COMPANY STRENGTHS

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 19)**.

Chart 19: Firms' Top Strengths (percent of respondents)

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)**.

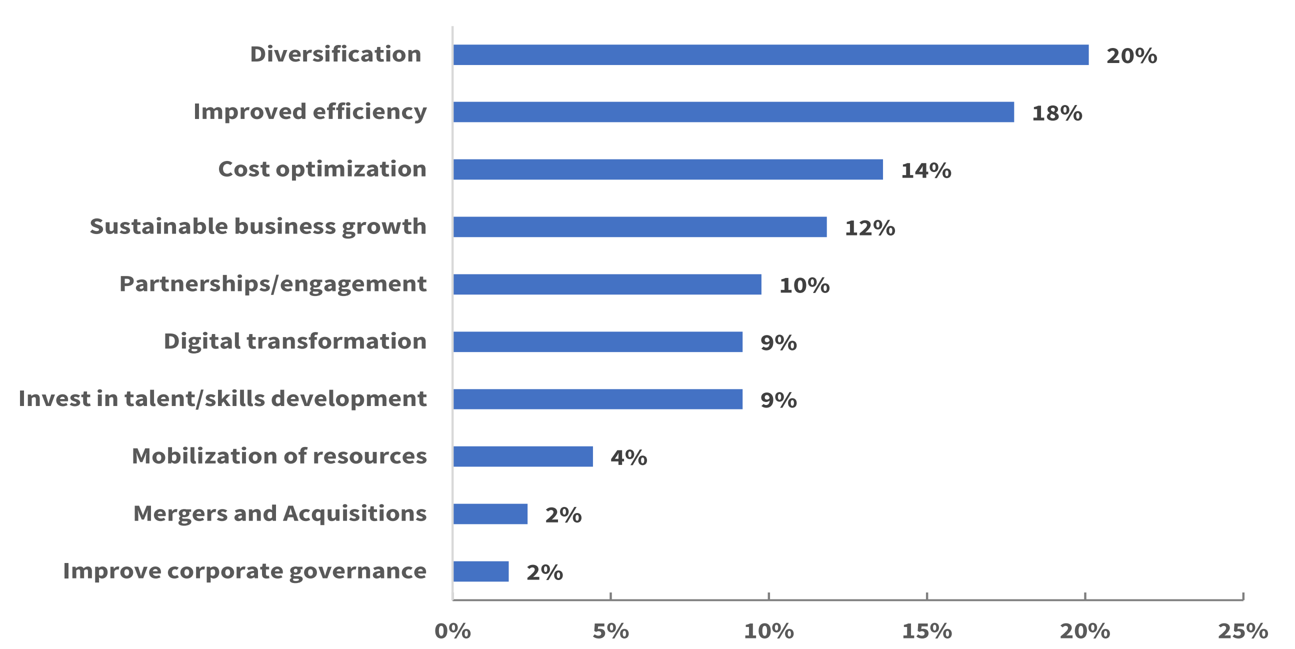
Chart 20: Firms' Top Strengths by Sectors (percent of respondents)



11. STRATEGIC PRIORITIES

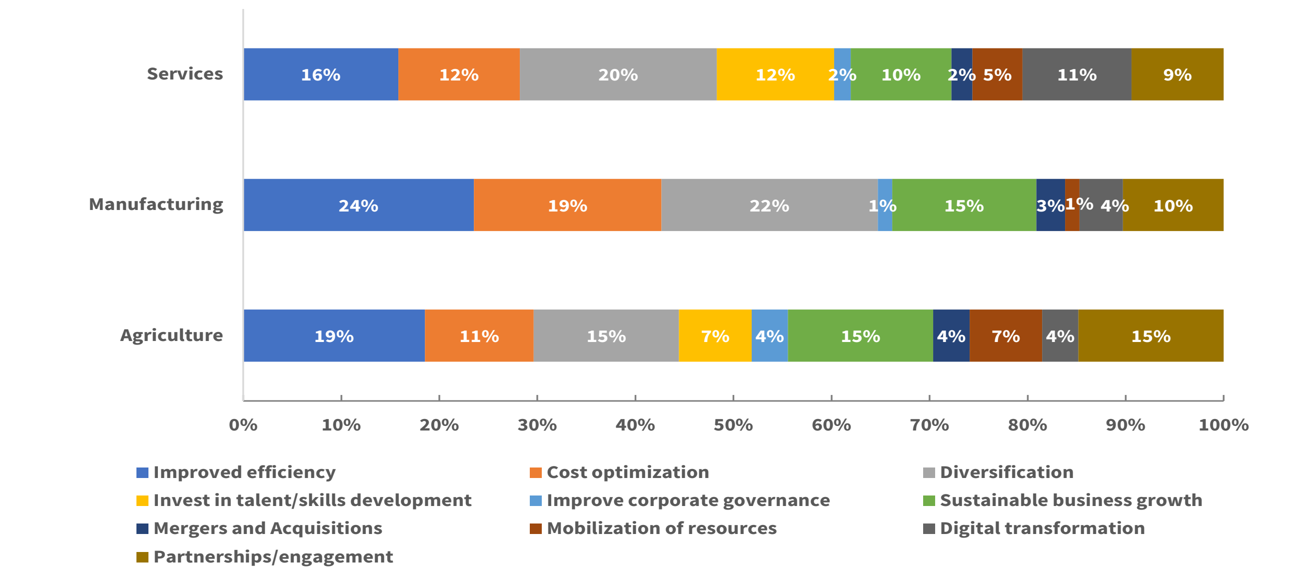
The Survey concluded by enquiring of respondents their strategic priorities over the next three years. The Survey revealed that firms plan to diversify, improve efficiency, optimize costs and grow their businesses sustainably **(Chart 21)**.

Chart 21: Firms' Strategic Priorities over the Next Three Years (percent of respondents)



Other than the common factors identified across all sectors, firms in all sectors identified investing in talent and skills development as another important factor **(Chart 22)**.

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



12. CONCLUSION

The July 2023 CEOs Survey revealed subdued business optimism about company and sectoral growth prospects on account of high interest rates, the political noise in the country, and the weakening Kenyan shilling. However, respondents expressed optimism that the reducing inflation inflationary pressures, expected improved performance of the agricultural sector coupled with the Government focus on the digital economy could support growth. Optimism regarding growth prospects for the Kenyan economy weakened with respondents citing the combined impact of the high cost of living and the weakening Shilling as growth-constraining factors. On the prospects for global growth, respondents expect these to remain largely the same, noting that risks to global growth remained unchanged, in particular the lingering war in Ukraine and the subdued global economic outlook.

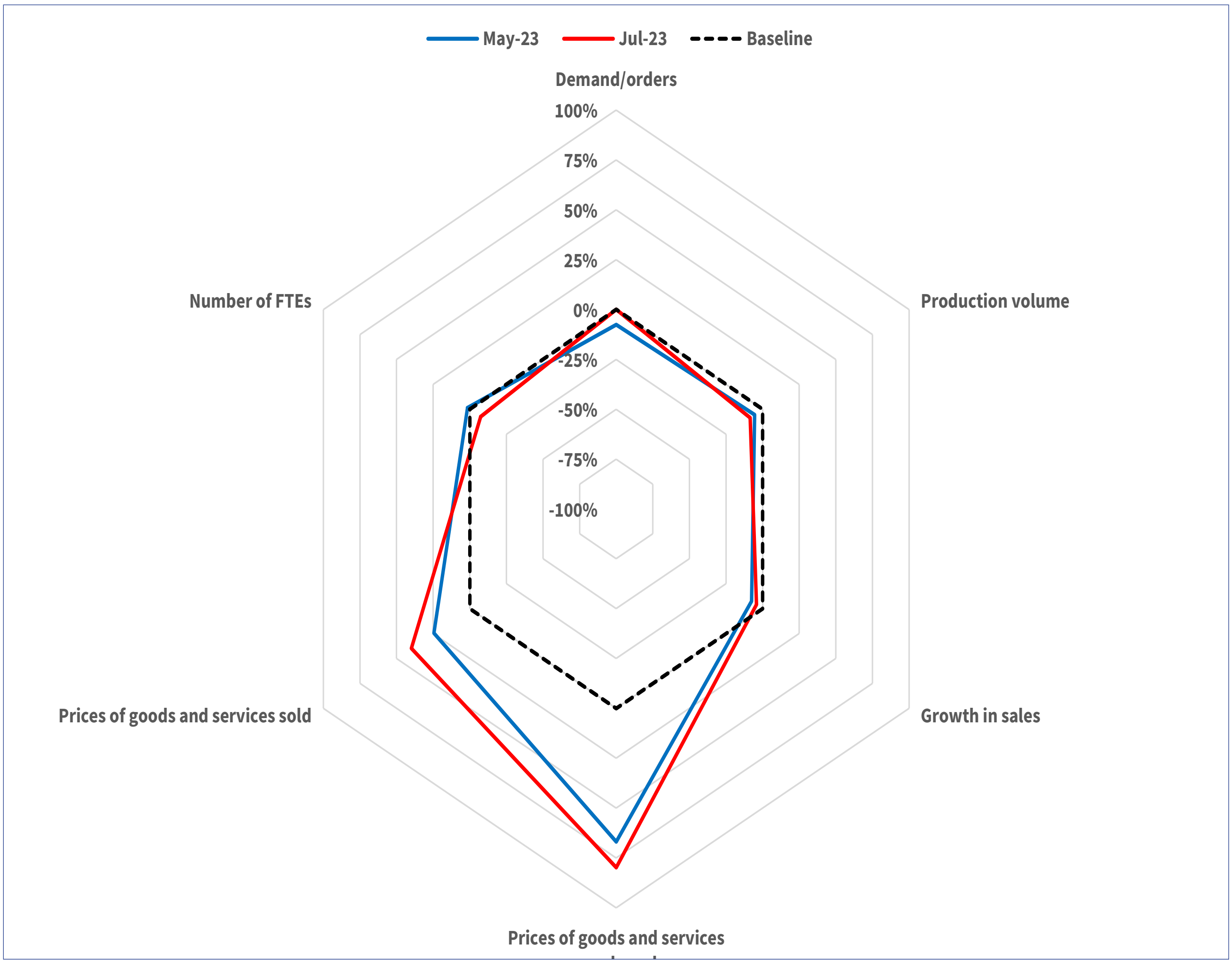
Business activity in 2023 Q2 improved slightly compared to 2023 Q1. Increased business activity was reported for firms in financial and ICT services, as well as the agriculture sector, with the latter benefiting from improved exports. Nevertheless, respondents reported that while business activity improved, increased fuel taxes, expensive food and commodities had reversed some of the gains.

Surveyed firms had mixed expectations for business activity in 2023 Q3 with the elevated cost of doing business and high cost of inputs, cited as factors that could constrain business activity.

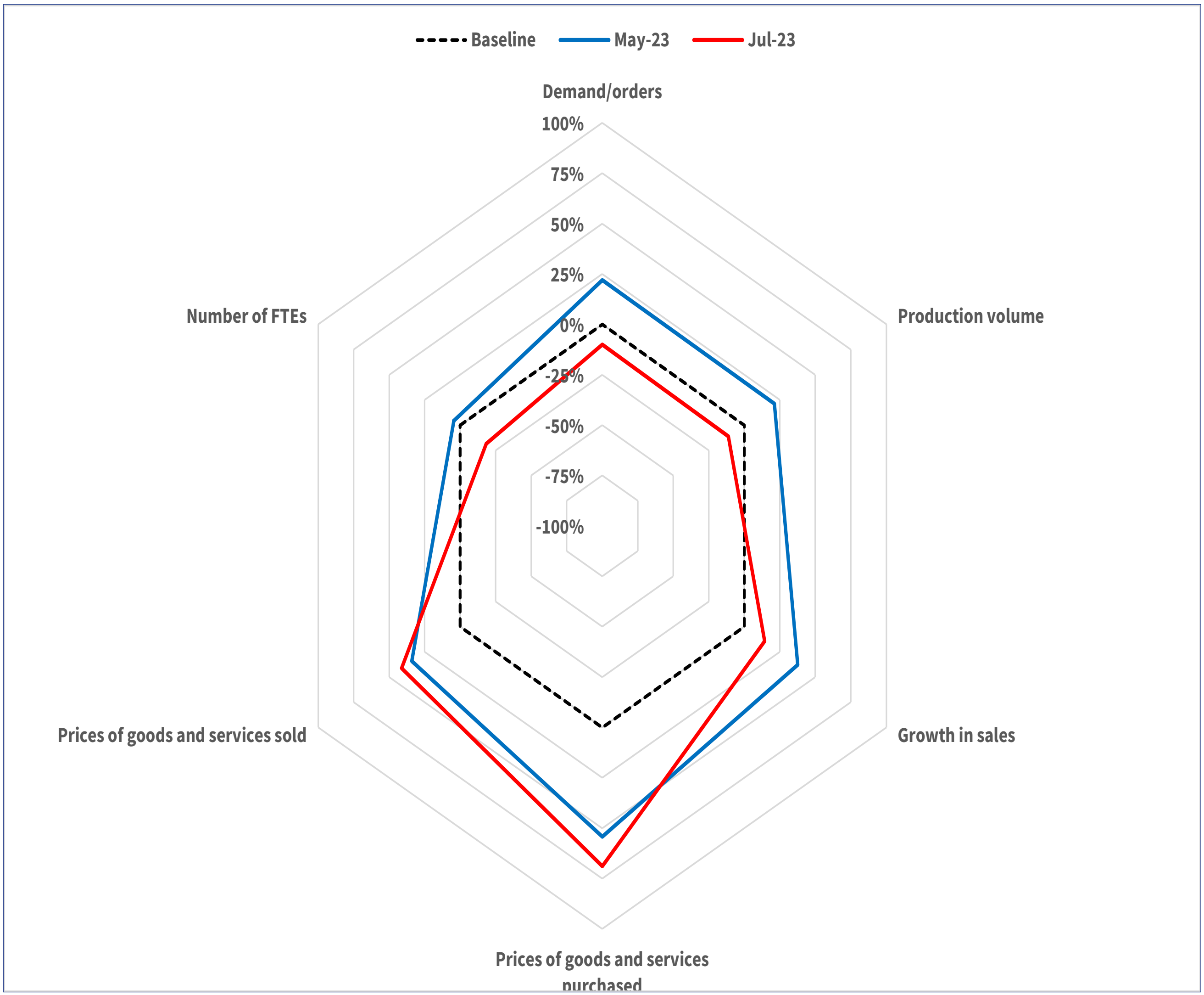
Talent management, customer centricity, and expansion into new markets remain the key drivers of firms' growth. In terms of constraining factors, respondents highlighted increased taxation, the business environment (cost of doing business) and the economic environment (high inflation and the weakening Shilling) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, macroeconomic volatility 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, 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: 2023 Q2 PURCHASE PRICES



ANNEX 2: EXPECTATIONS OF 2023 Q3 BUSINESS ACTIVITY



BANKI KUU YA KENYA
Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi |Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000

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