



Central Bank of Kenya

CEO's Survey

November 2022

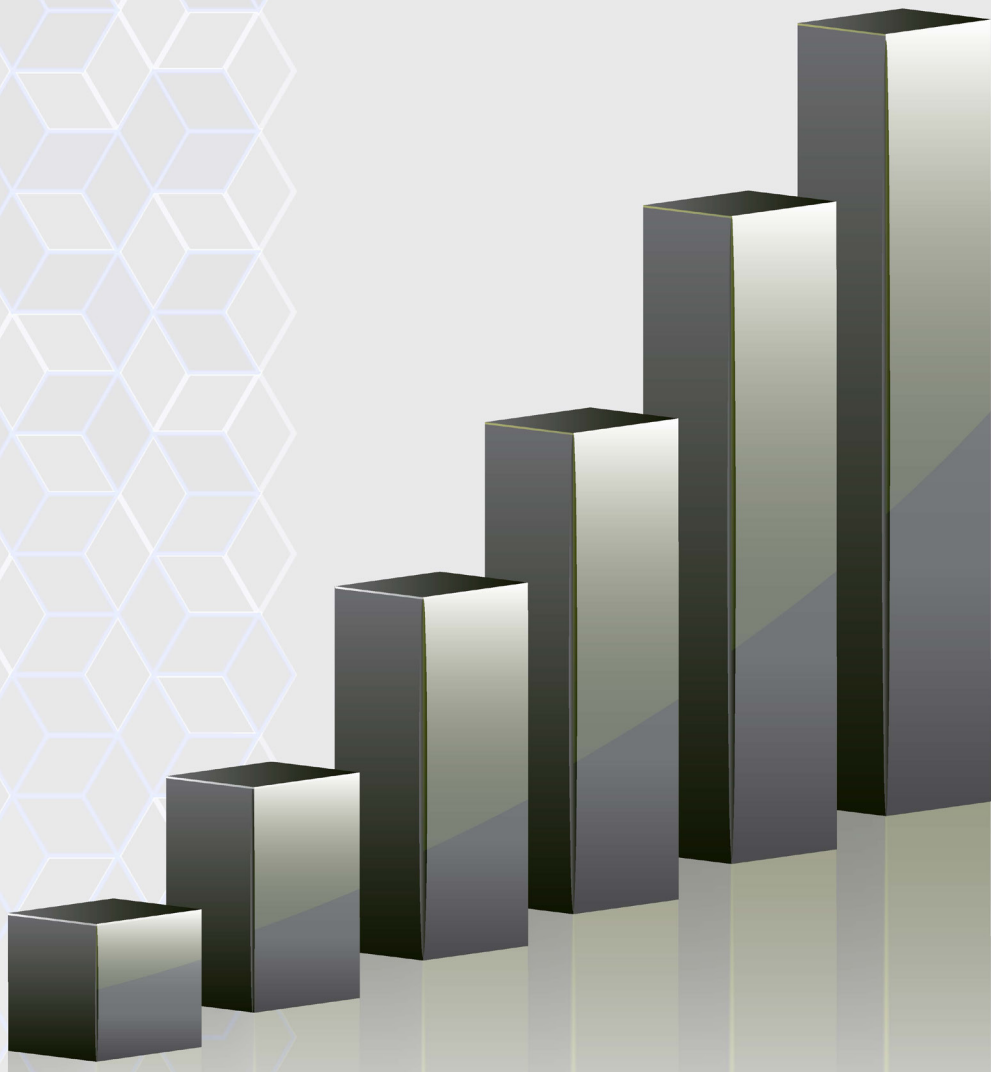


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1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the other surveys (Market Perceptions Survey and Agriculture Sector Survey) conducted by the Monetary Policy Committee (MPC) every two months prior to its meetings. The objective of the Survey is to capture information on top firms' perceptions, expectations and issues of concern. The Survey provides CBK a sharper picture of the evolving economy, complementing information from other sources, thereby facilitating better 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 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 November 1 and 14, 2022. 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 2022 quarter four (Q4) compared to 2022 quarter three (Q3), and their expectations for economic activity in the first quarter of 2023 (Q1). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (November 2022 – October 2023), as well as the strategic directions and solutions to address their key constraining factors over the medium term (November 2022 – October 2024). 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 an online survey.

The respondents were from the following sectors: manufacturing (22 percent), professional services (12 percent), agriculture (10 percent), financial services (11 percent), ICT and telecommunications (10 percent), mining and energy (6 percent), health and pharmaceuticals (5 percent), real estate (5 percent), transport and storage (4 percent), and tourism, hotels and restaurants (3 percent). Other sectors such as education, security, wholesale and retail trade, and media accounted for two percent each or less.

Majority of the respondents (57 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses and publicly listed domestic companies. Forty nine 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 19 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:

- Sustained business optimism about growth prospects for their companies and sectors. This optimism was mainly attributed to settling in of the new government, as well as sector specific growth opportunities especially in the services¹ sector. However, respondents highlighted concerns about domestic and global inflation, high energy costs, poor weather conditions; declining consumer spending, global recession, and the continued war in Ukraine which could constrain growth.
- Respondents reported improved business activity in 2022 Q4 compared to 2022 Q3 attributed to: conclusion of the elections and seasonal factors.

¹Services include professional services, hotels/restaurants, tourism, media, ICT/telecommunications, wholesale/retails, financial and real estate sectors etc

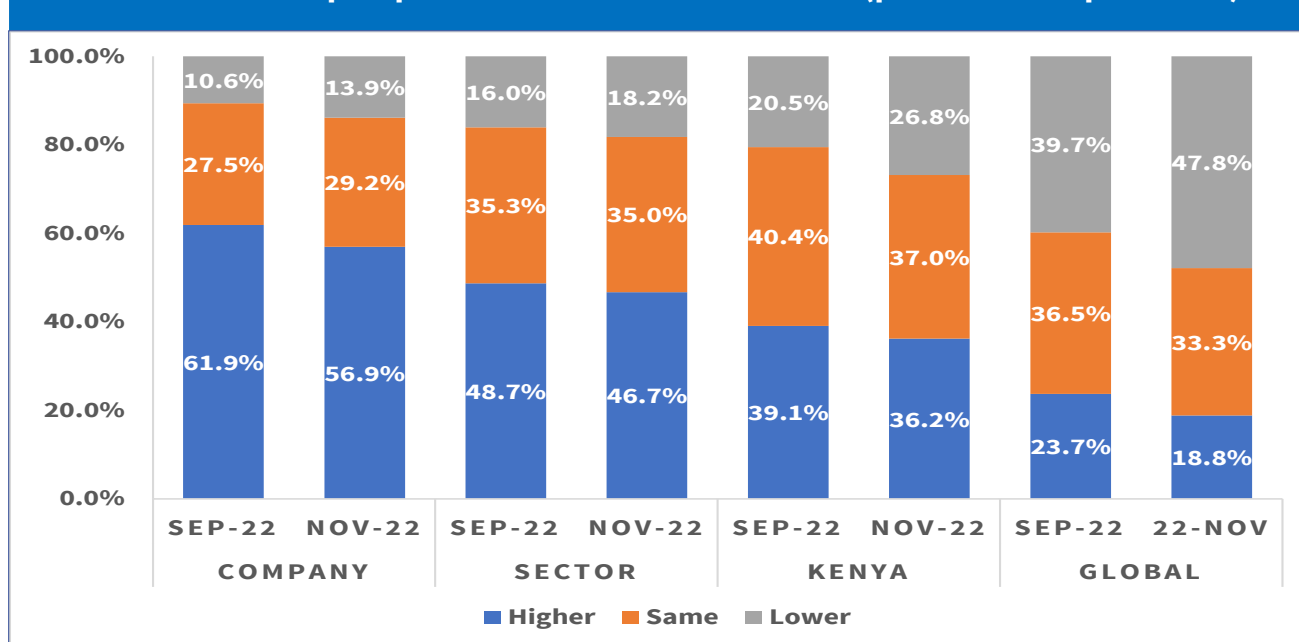
- Surveyed firms expect continued improvement in business activity in 2023 Q1. Respondents expect that demand/orders, production volumes and sales will increase for majority of businesses. Firms expect new business opportunities in 2023 to be supported by government expenditure. Specific sectors are also likely to experience increased demand and production due to seasonal factors. Nevertheless, depressed rainfall could negatively affect agricultural production, while any further increases in taxes could reduce disposable incomes.
- Expansion into new markets, talent management and reward strategy as well as technological innovations were identified by firms as key drivers of firms' growth.
- Respondents highlighted the economic environment (high inflation and the strengthening of the US dollar) and the business environment (cost of doing business) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, global recession and high energy prices as threats to their expansion. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, increased sales and marketing and digitisation of their operations.
- A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms' outlook in 2022.

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. Respondents were most optimistic about the growth prospects for their own companies and sectors (**Chart 1**). Optimism was mainly due settling in of the new government, as well as sector specific growth opportunities. Firms reported increased opportunities for business especially in ICT, manufacturing (notably renewable energy), hospitality, healthcare and pharmaceuticals and building and construction. Additionally, firms reported prospects for growth in security and financial services.

Optimism regarding growth prospects for the Kenyan economy remained largely the same as the economy continues to face high inflation impacting consumer spending. Further, drought conditions in some parts of the country compounded by the effects of a stronger US dollar, and a global recession, amidst the continuing war in Ukraine were highlighted as factors that are likely to negatively impact growth. Nevertheless, respondents noted the continued positive investor confidence and some anticipated Government policies that are likely to positively impact the agriculture (especially horticulture), MSMEs and building and construction sectors.

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



On the global economy, optimism was tempered by continued disruptions from the war in Ukraine, global recession, and persistent high inflation. The decrease in global business optimism led to a slight decline in Business Confidence Index **(Annex 1)**.

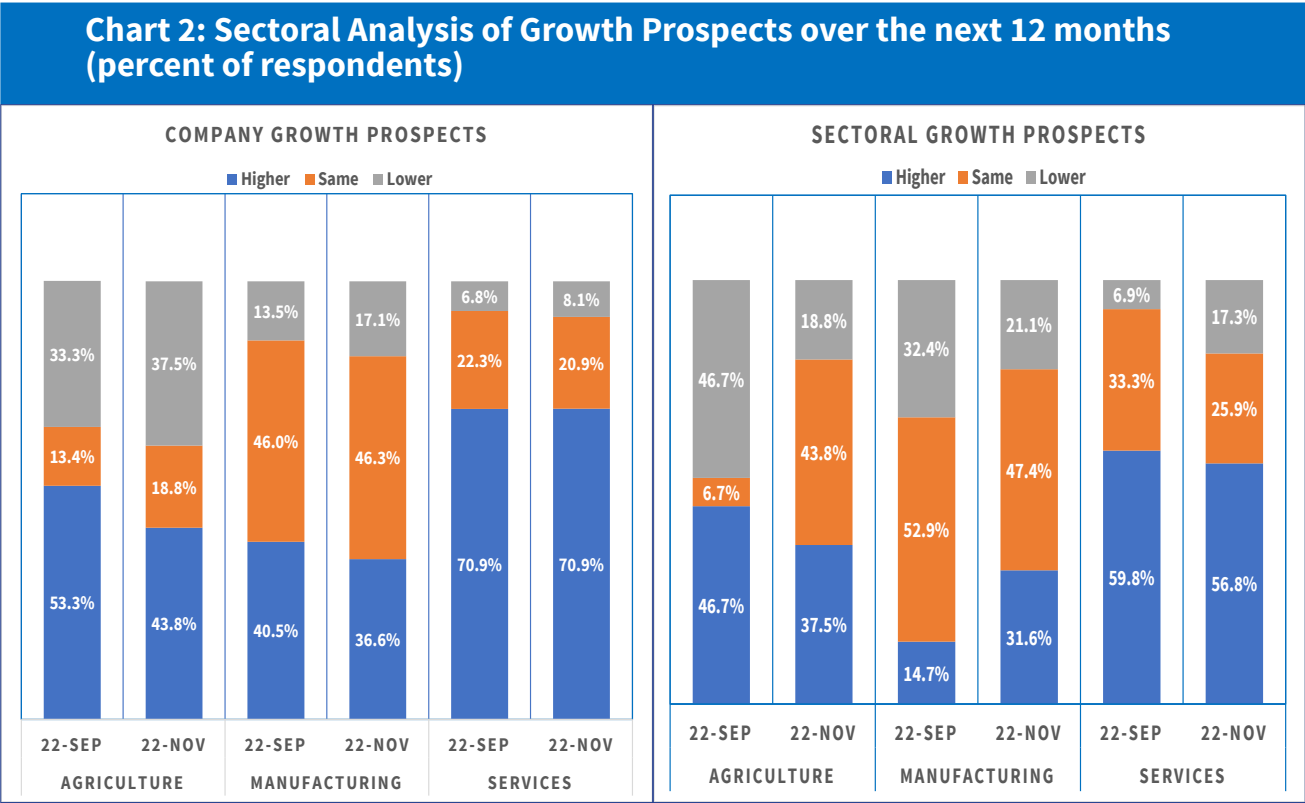
The services sector continued to report higher optimism compared to other sectors **(Chart 2)**.

In the agriculture sector, respondents attributed their optimism to increased demand and Government policies aimed at supporting the sector. Nevertheless, respondents continued to be concerned about the adverse weather conditions which has affected agricultural production, high cost of inputs, global inflation and the effects of the war in Ukraine.

In the manufacturing sector, respondents attributed their optimism to increased demand for some manufactured products, business opportunities in

health and pharmaceuticals as well as renewable energy, and expanded opportunities in the EAC. They however, remained concerned about domestic and global inflation, taxation, global recession and the impact of the war in Ukraine.

In the services sector, firms noted that with the conclusion of the elections, significant improvement in investor and consumer confidence had been witnessed. This should spur growth compared to 2021, when business activity was dampened by Covid-19 cases. Financial sector firms were optimistic that the Government's focus on increasing savings would boost growth. Opportunities for growth were also noted in the real sector, building and construction and ICT sectors. Nonetheless, firms continued to be concerned about the war in Ukraine, global recession and global inflation.



6. BUSINESS ACTIVITY IN 2022 Q4 COMPARED TO 2022 Q3

The Survey sought CEOs perceptions on business activity in the fourth quarter of 2022 compared to the third quarter of 2022. The Survey revealed that business activity improved following conclusion of the elections.

Demand/orders, production volumes and sales were higher or the same for majority of respondents as business activity picked up after the elections (**Chart 3**). The prices of goods and services purchased remained elevated due to factors affecting the cost of production such as fuel costs and supply chain constraints while the number of full-time employees remained the same for majority of respondents.

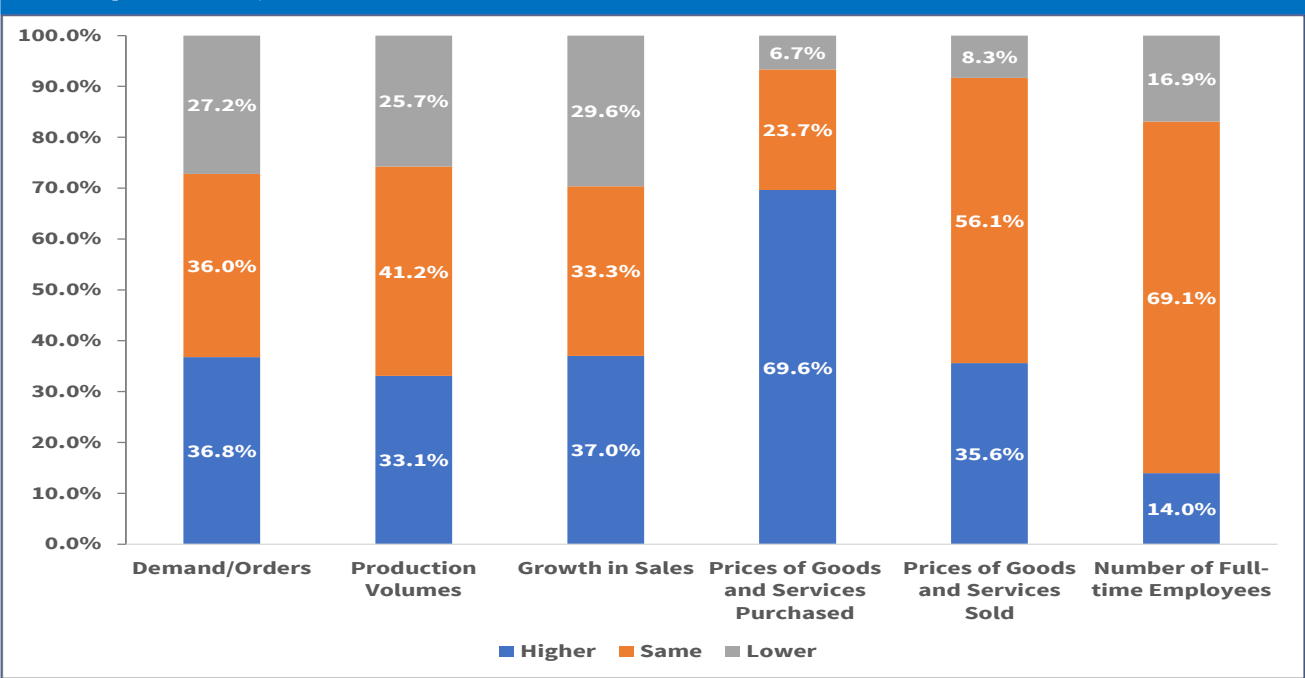
Firms in the agriculture sector reported that production volumes would be affected by the

depressed rainfall. Some firms also reported laying off staff due to increased labour costs attributed to the strengthening of the US Dollar and British Pound.

Firms in the manufacturing sector reported increased business activity following conclusion of the elections with businesses expecting this trend to be supported by increased sales due to end of year festivities. Nevertheless, prices of key products such as wheat and other inputs such as electricity and fuel oil remained high, with firms unable to pass on increased costs to consumers.

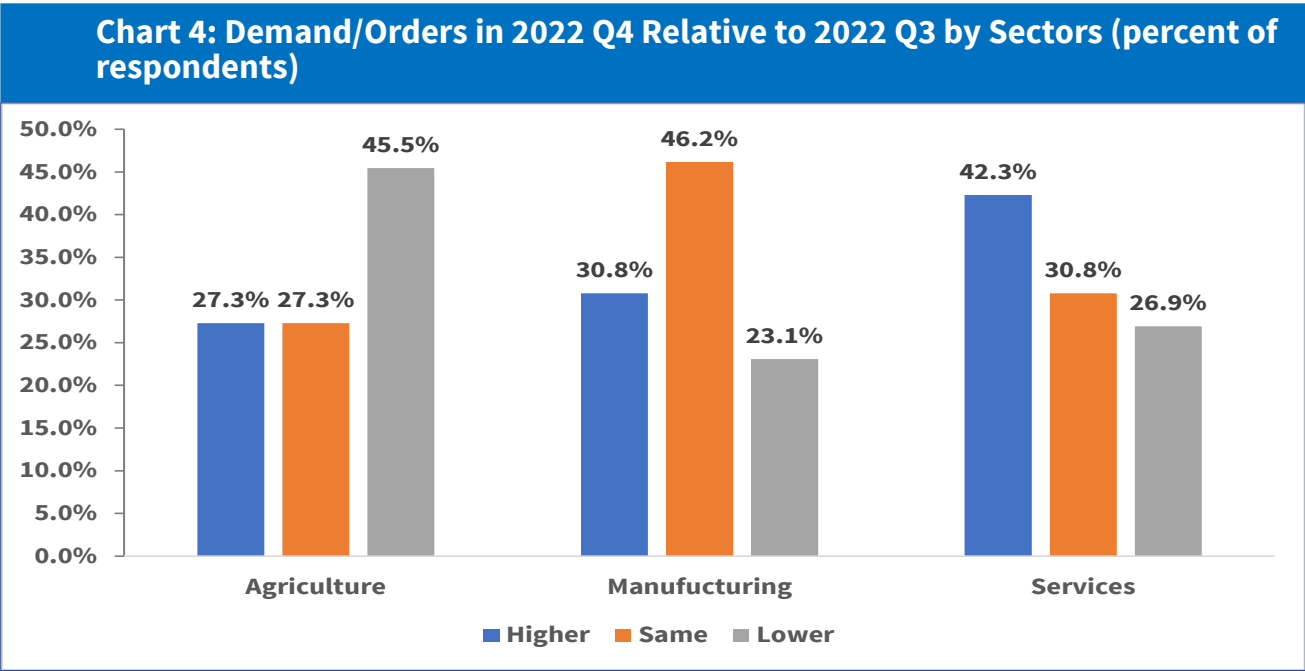
In the services sector, firms reported a general increase in demand for goods and services due to increased economic activity. This was especially so for financial services, tourism and real sector firms. Nonetheless, domestic and global inflation remain a key concern for services sector firms.

Chart 3: Business Activity in 2022 Q4 Compared to 2022 Q3 (percent of respondents)



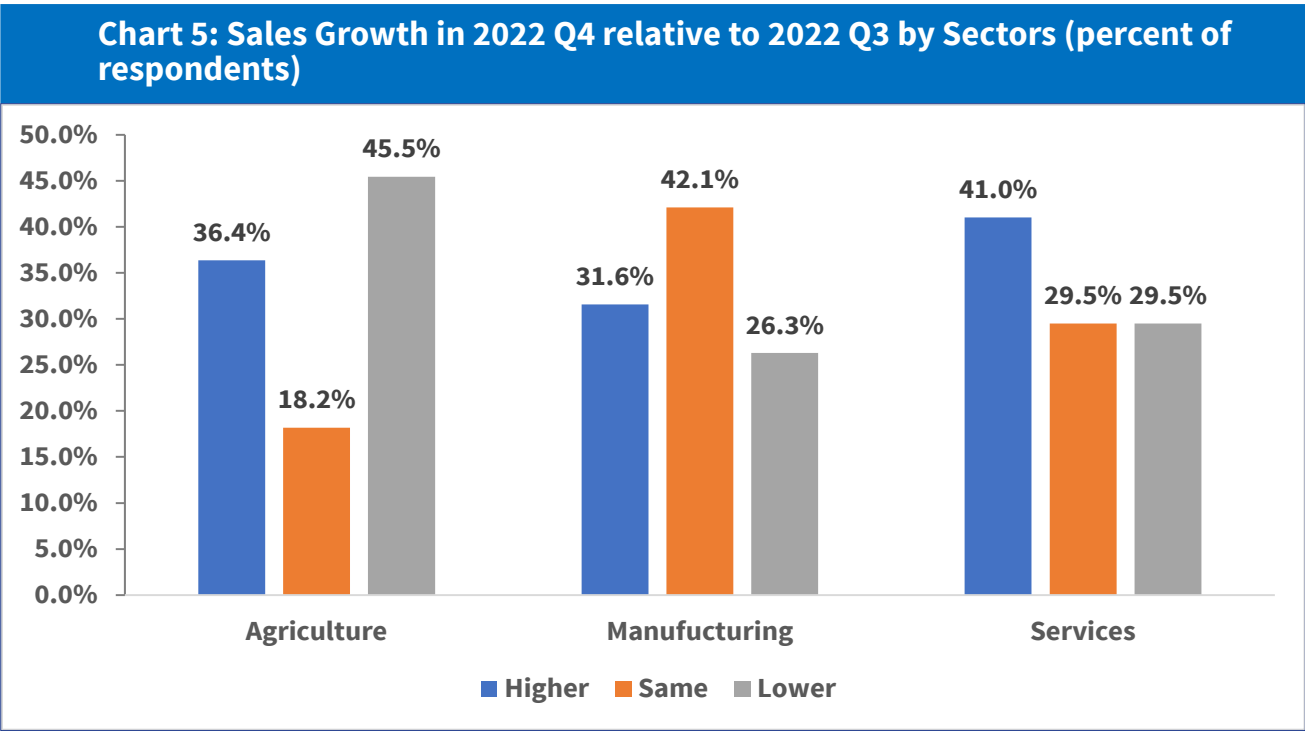
In terms of sectoral demand in quarter 4 of 2022, agriculture sector firms reported the lowest demand/orders due to reduced orders from manufacturers.

Respondents also noted that production volumes would remain below average due to poor rainfall. **(Chart 4).**



Services sector firms reported higher sales growth compared to other sectors **(Chart 5)**. This was attributed to increased business activity due to economic recovery from the negative effects of the COVID-19 pandemic and successful conclusion of the 2022 general elections. Specific sectors also

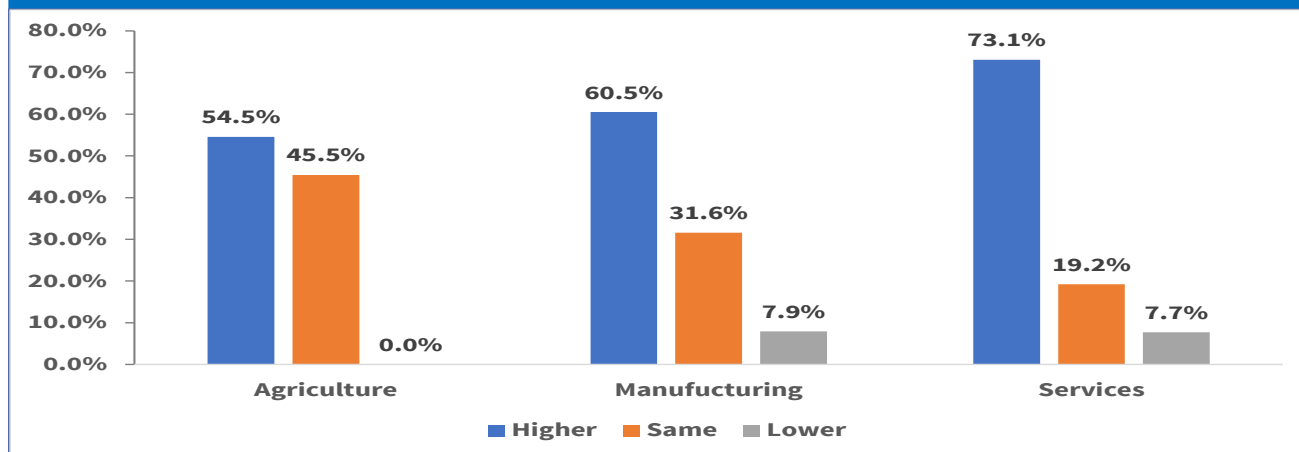
witnessed increased sales due to seasonal factors. Sales growth was flat for manufacturing sector firms where businesses continue to report several constraining factors including the high cost of inputs and the impact of a stronger US Dollar.



Rising inflation, the impact of a strong US Dollar and a general escalation of production costs remain a concern for majority of respondents across all sectors (**Chart 6** and **Annex 2**).

Majority of businesses reported financing their operations through own resources and bank loans in the third quarter of 2022.

Chart 6: Purchase Prices in 2022 Q4 Compared to 2022 Q3 by Sectors (percent of respondents)



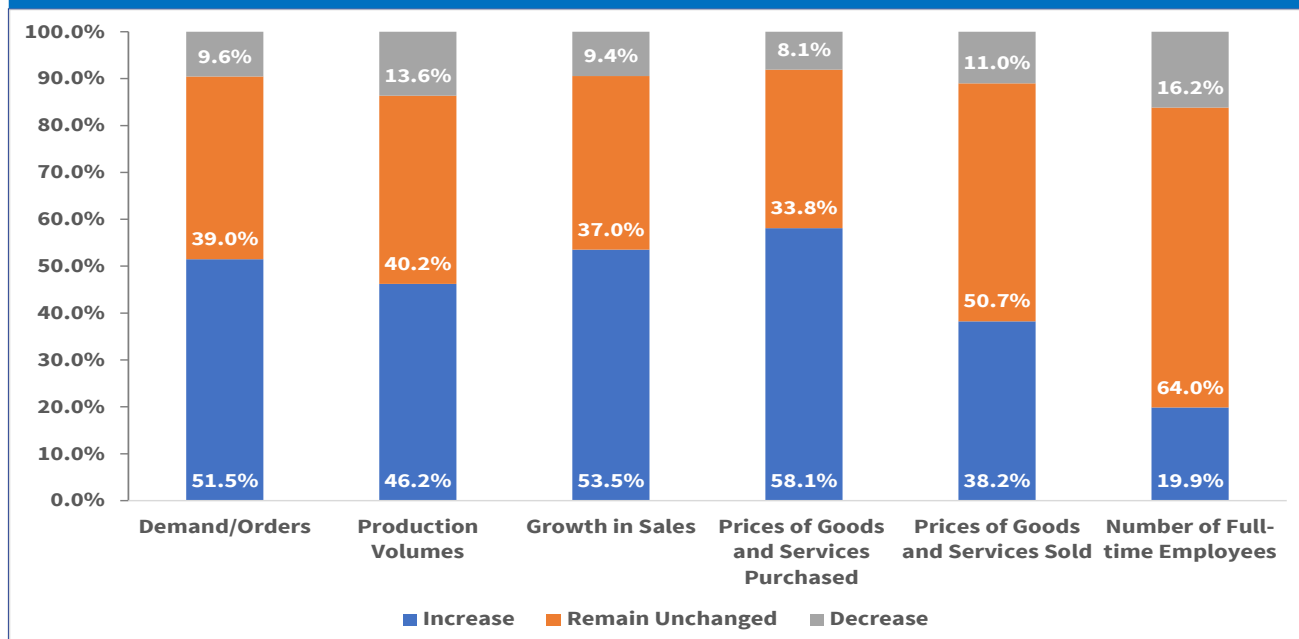
7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q1 COMPARED TO 2022 Q4

The Survey sought CEOs expectations of business activity in the first quarter of 2023 relative to the fourth quarter of 2022. Business activity in 2023 Q1 is expected to improve across all sectors (**Chart 7**).

Demand/orders, production volumes and sales are all expected to improve for majority of respondents as firms expand production and anticipate increased Government spending. Businesses in the wholesale

and retail trade, financial services and tourism sectors expect business activity to be supported by seasonal factors. Though demand and sales are expected to increase, respondents envisage that the high cost of living will restrain the upward movement of sales prices. Additionally, the effect of the poor rainfall, inflation and high energy costs is likely to keep purchase prices elevated (**Annex 3**).

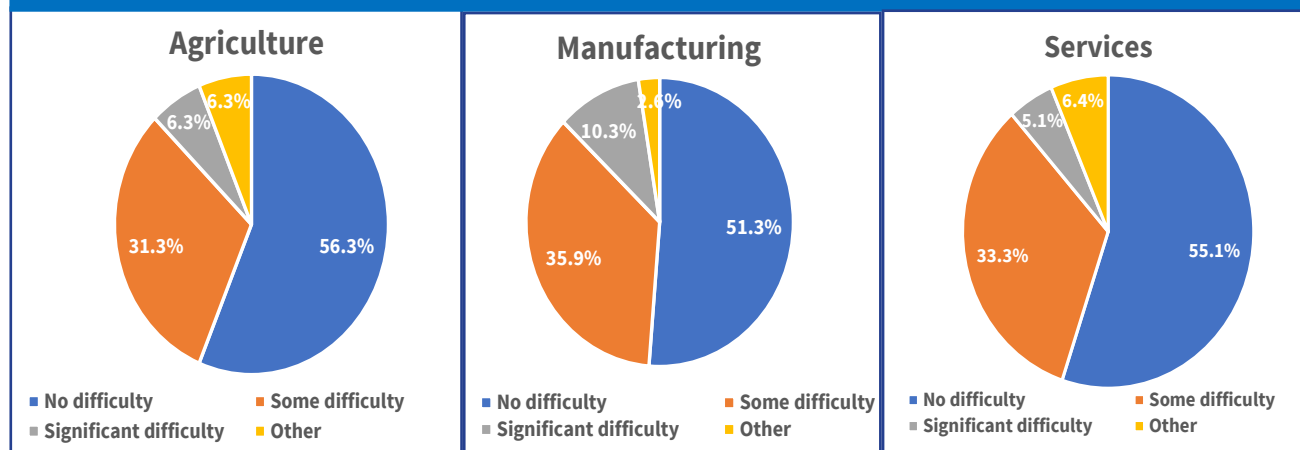
Chart 7: Outlook on Business Activity in 2023 Q1 compared to 2022 Q4 (percent of respondents)



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 8**). The strength of these firms lies in their technological advancements and operational set up which allows for scalability.

Firms which reported possible difficulty in expanding cited financing challenges and lingering supply chain challenges as the main reasons constraining their ability to expand. Other reasons cited included foreign exchange challenges for importation, freight costs, inflation, energy prices, and buyers being cautious on expenditure on 'luxuries' hence low demand for certain products.

Chart 8: Potential Level of Difficulty in Meeting Increased Demand or Sales (percent of respondents)

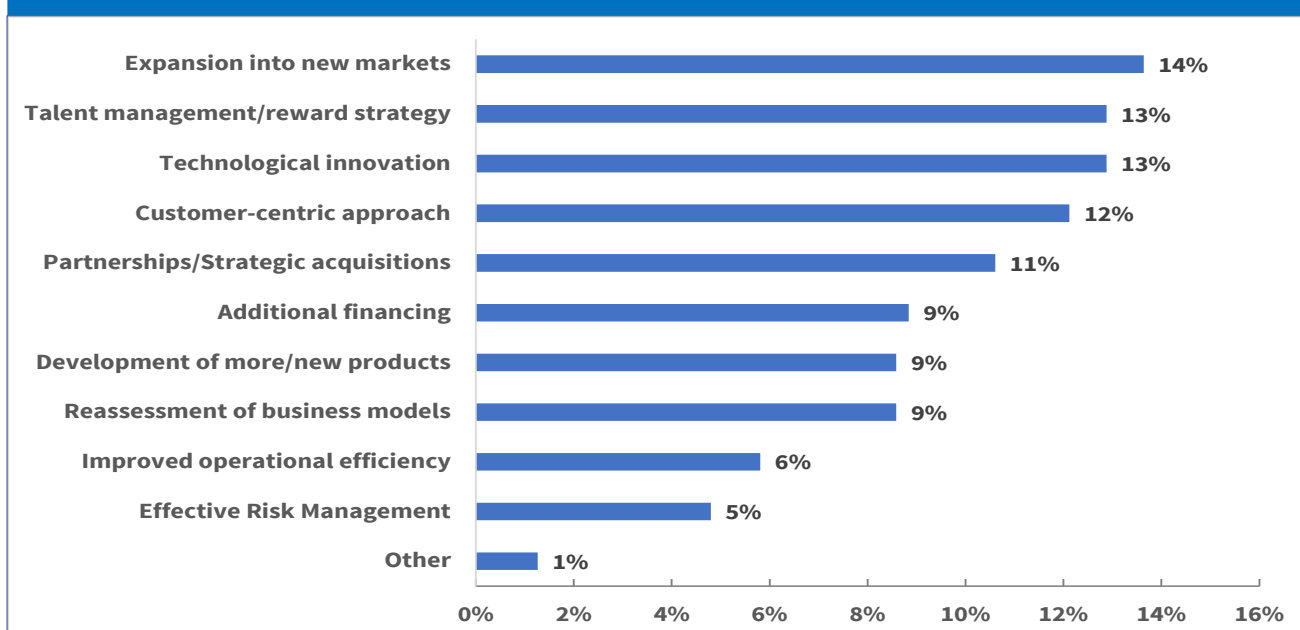


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

The Survey sought to establish the drivers of firm expansion, the domestic and external factors that could constrain their growth/expansion over the next one year as well as the mitigating factors. The

results show that expansion into new markets, talent management and technological innovations are the key drivers of firms' growth over the next one year (**Chart 9**).

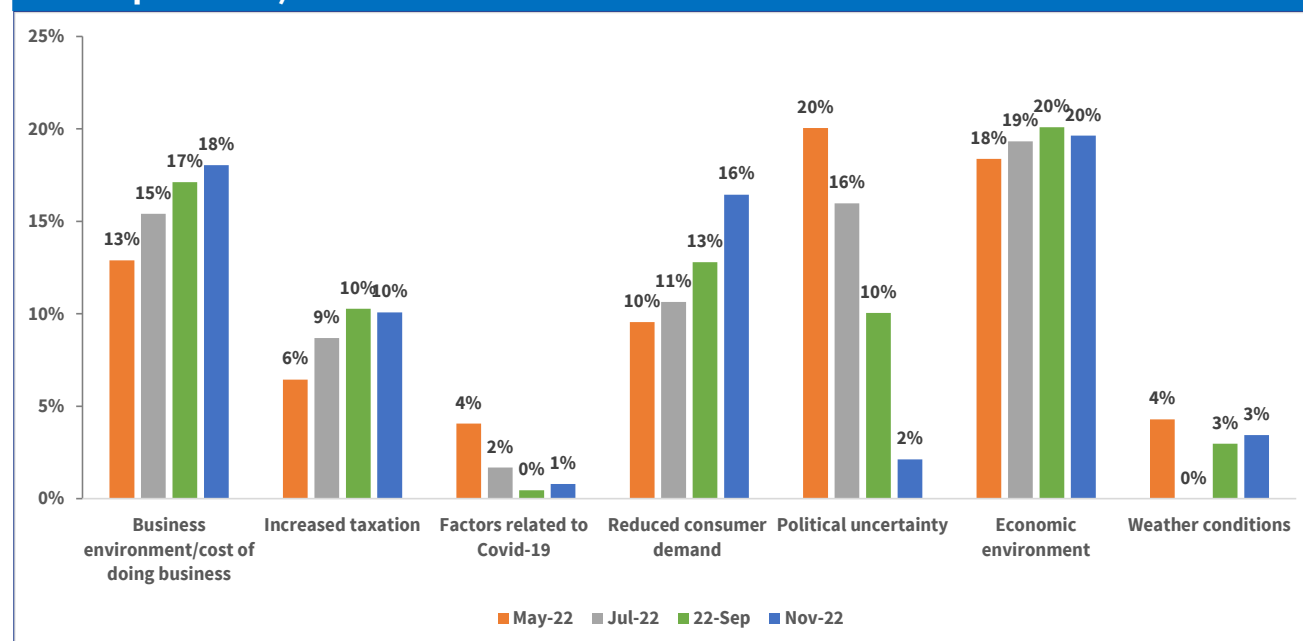
Chart 9: Drivers of Firm Expansion (percent of respondents)



Respondents continued to highlight the economic environment (high inflation and a stronger US Dollar), the business environment (cost of doing

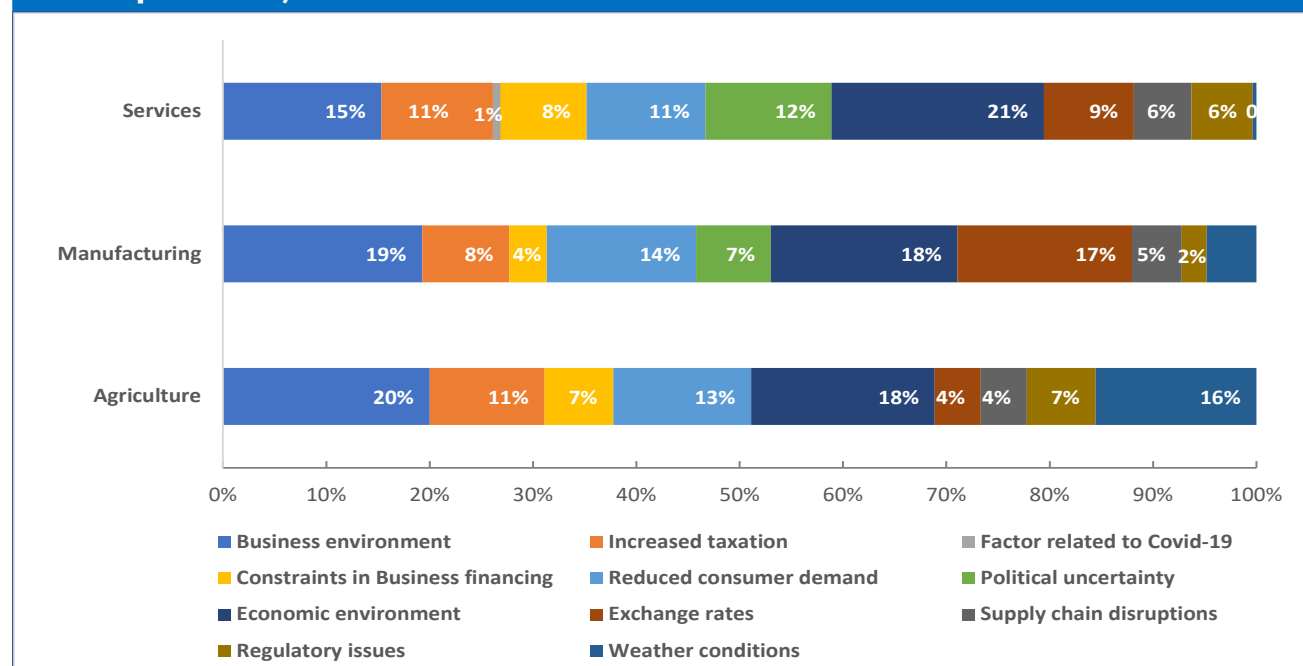
business) and reduced consumer demand as the main domestic factors that could constrain their growth (**Chart 10**).

Chart 10: Domestic Factors Constraining Firms' Expansion (percent of respondents)



The economic environment was of greater concern for firms in the manufacturing and services sectors. Firms in the agriculture sector on the other hand were most concerned about the business environment/cost of doing business, economic environment, and reduced consumer demand (**Chart 11**). Exchange rates and increased taxation were also of concern for businesses in all sectors.

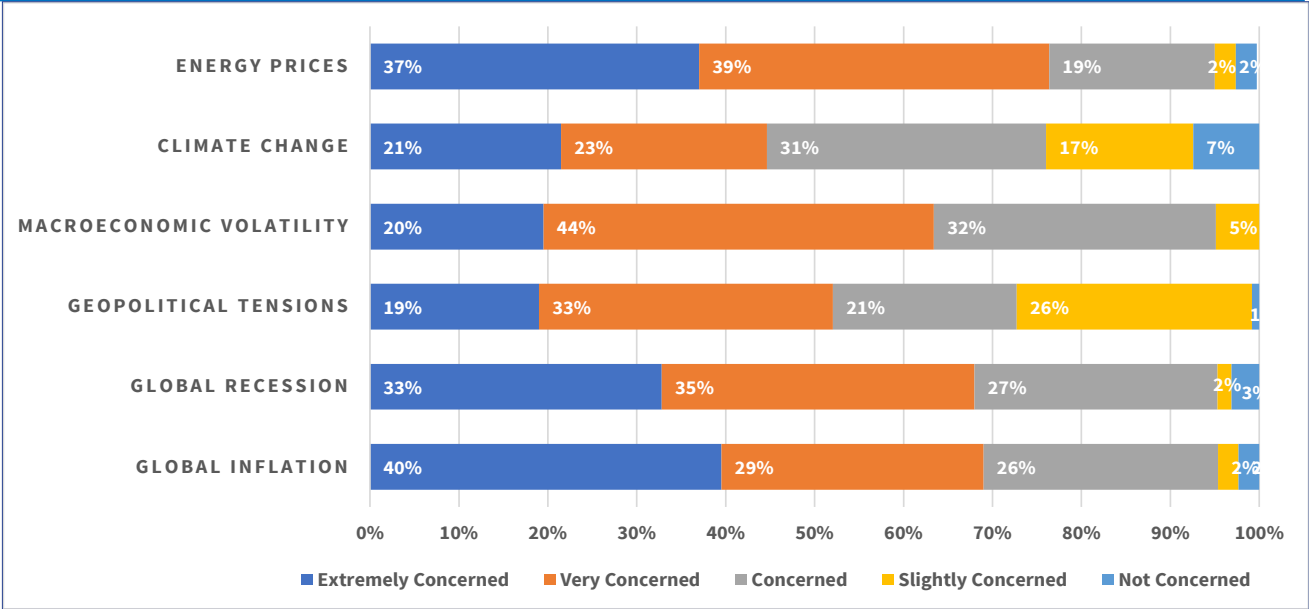
Chart 11: Domestic Factors Constraining Firms' Expansion by Sectors (percent of respondents)



The Survey also sought to establish the top three external (non-domestic) threats impacting businesses. Respondents indicated that they were most concerned about global inflation, high energy prices and recession (**Chart 12**). Agriculture sector

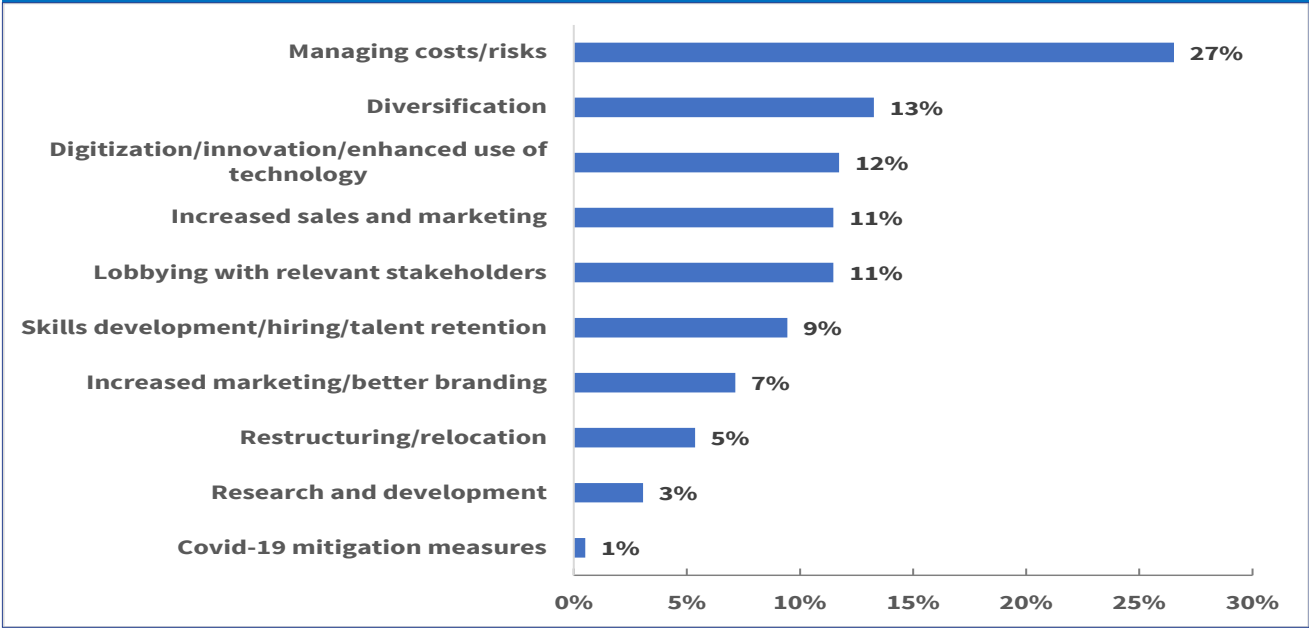
firms were most concerned about energy prices and climate change while manufacturing and services sector firms were most concerned about energy prices and global inflation.

Chart 12: External Threats Impacting Firms' Expansion (percent of respondents)



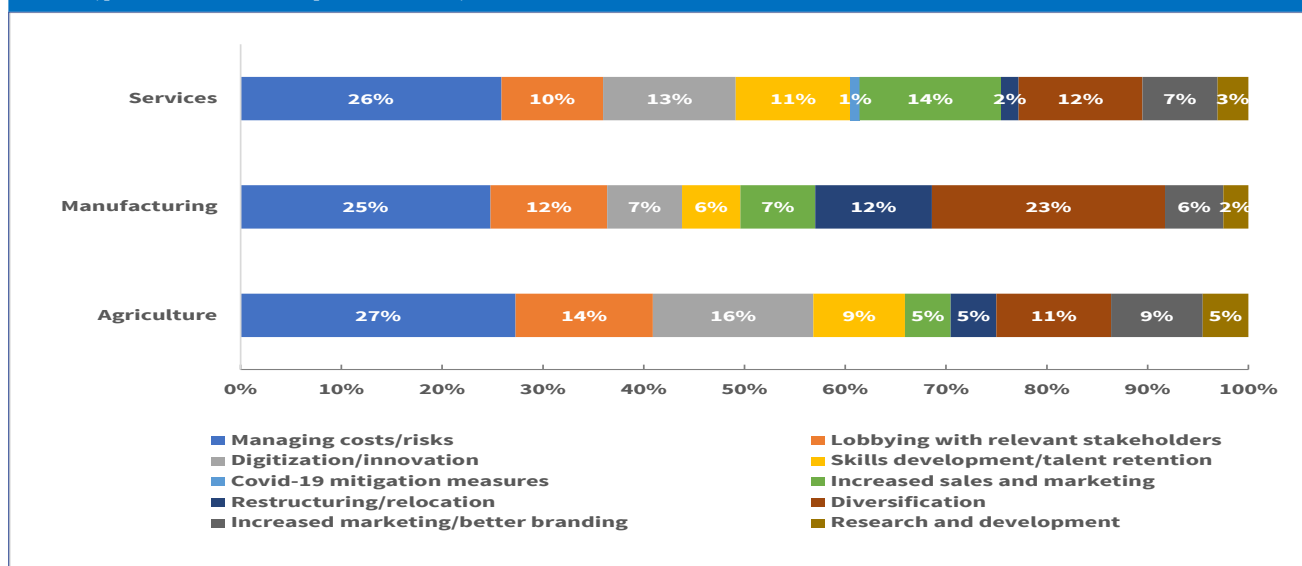
To mitigate the factors constraining growth/expansion, firms proposed various solutions: management of costs and risks, diversification as well as digitization of their operations (**Chart 13**).

Chart 13: Firms' Proposed Solutions to Factors Constraining Growth (percent of respondents)



Other important factors for respective sectors were increased sales and marketing (services sector) and lobbying with relevant stakeholders for manufacturing and agriculture sectors (**Chart 14**).

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

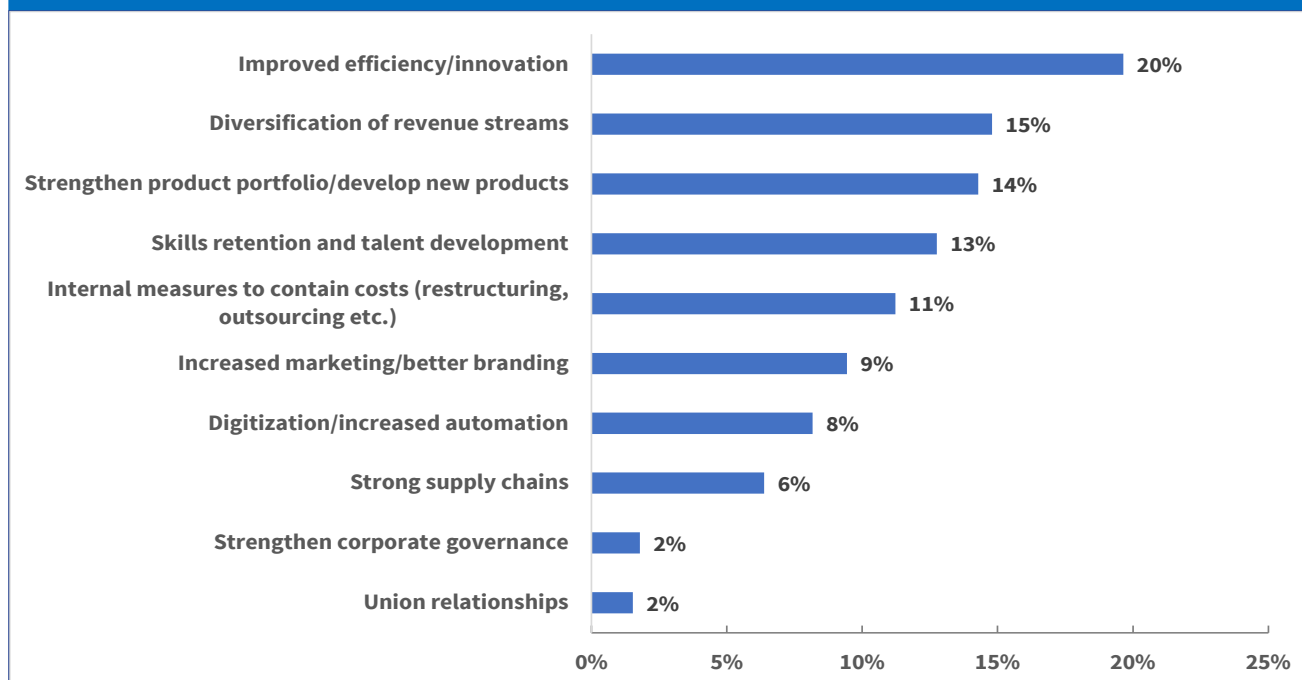


9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS' OUTLOOK OVER THE NEXT 12 MONTHS

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 diversification of revenue streams as the main internal factors that could

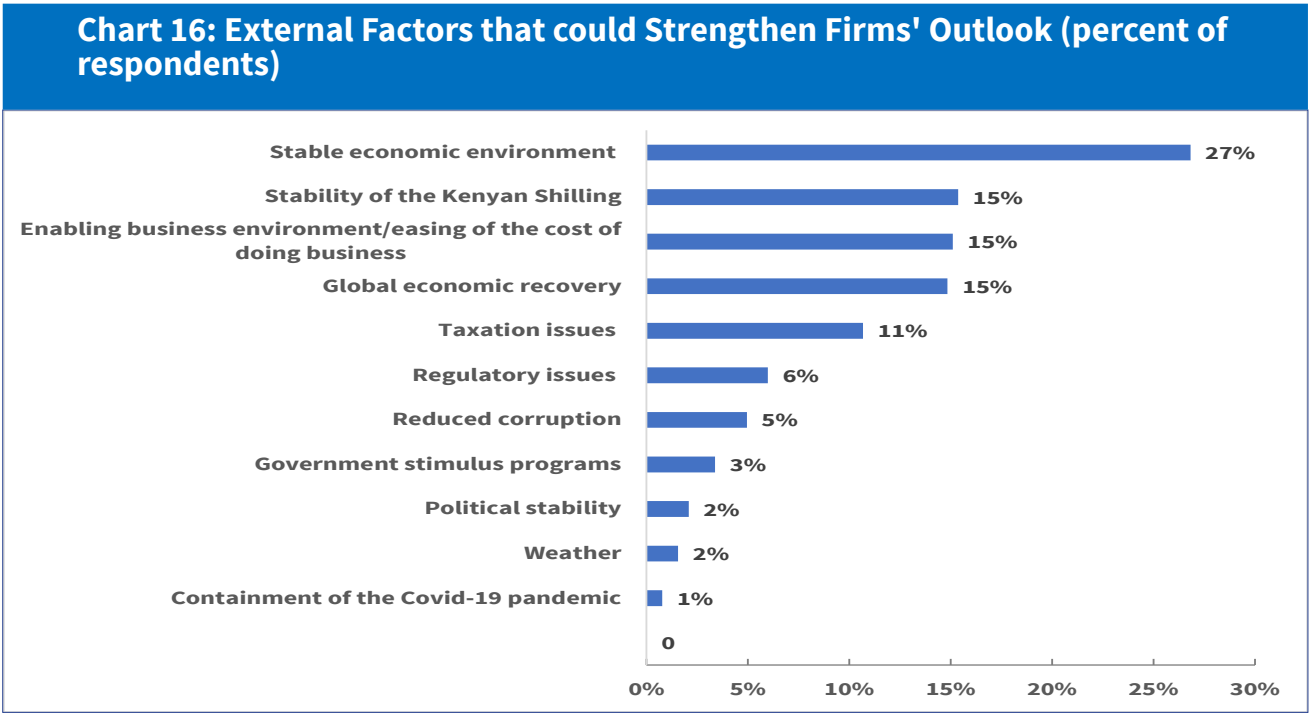
strengthen outlook across all sectors. Strengthening product portfolio as well as skills retention and talent development also continue to be important internal factors to strengthen outlook for majority of firms (**Chart 15**).

Chart 15: Internal Factors that could Strengthen Firms' Outlook (percent of respondents)

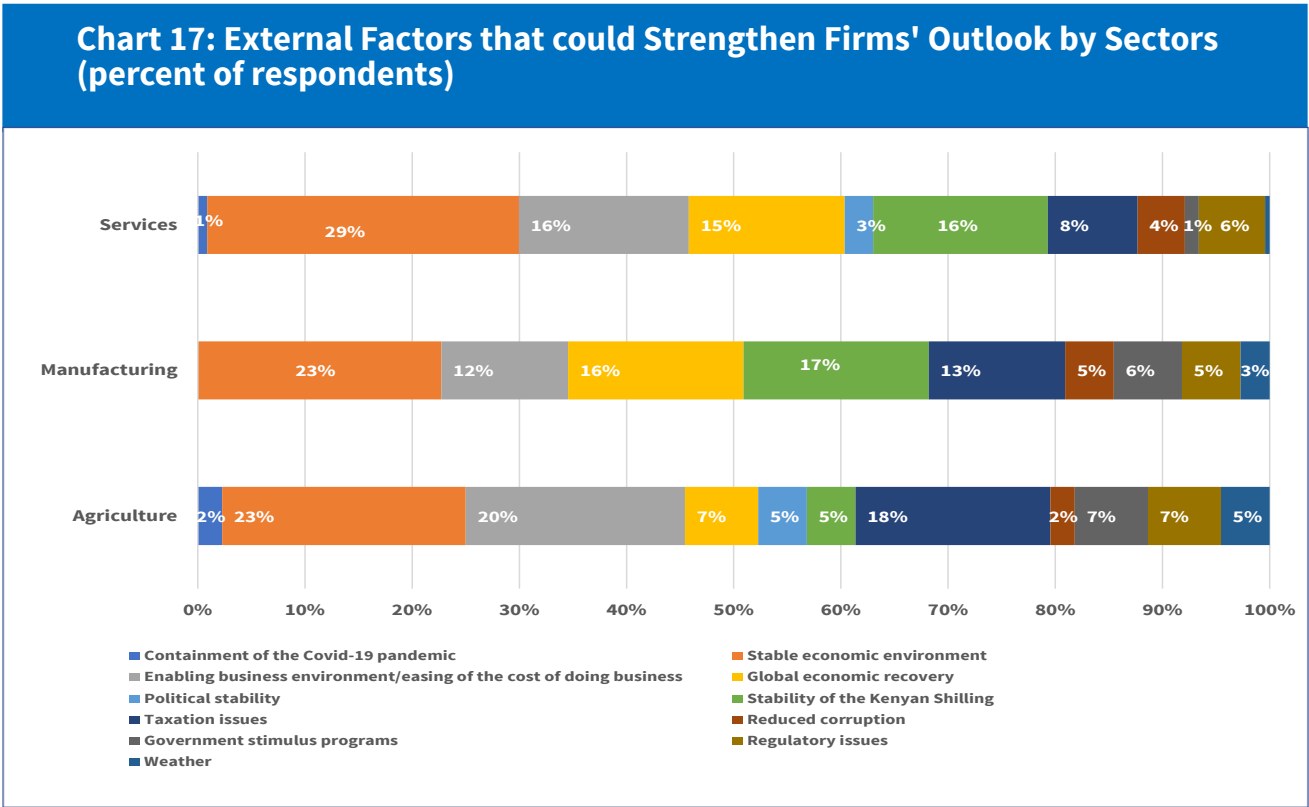


A sectoral analysis of the identified internal factors revealed that strong supply chains and strengthening product portfolio were important factors for agriculture sector firms while internal measures to contain costs was an important factor for manufacturing sector firms. In the services sector, skills retention/talent development and strengthening product portfolio were important factors.

A stable economic environment, an enabling business environment and stability of the Kenyan Shilling as well as global economic recovery were identified as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months (**Chart 16**).



Besides the top three factors identified in **Chart 16**, taxation issues were an equally important factor for all sectors. (**Chart 17**).



10. TOP COMPANY STRENGTHS

The Survey required respondents to indicate their company's strengths. Firms reported trusted brands/product quality, technical capabilities and skilled

workforce as well as customer centrality as their top strengths. Equally important are company values and their history/length of presence in the market (**Chart 18**).

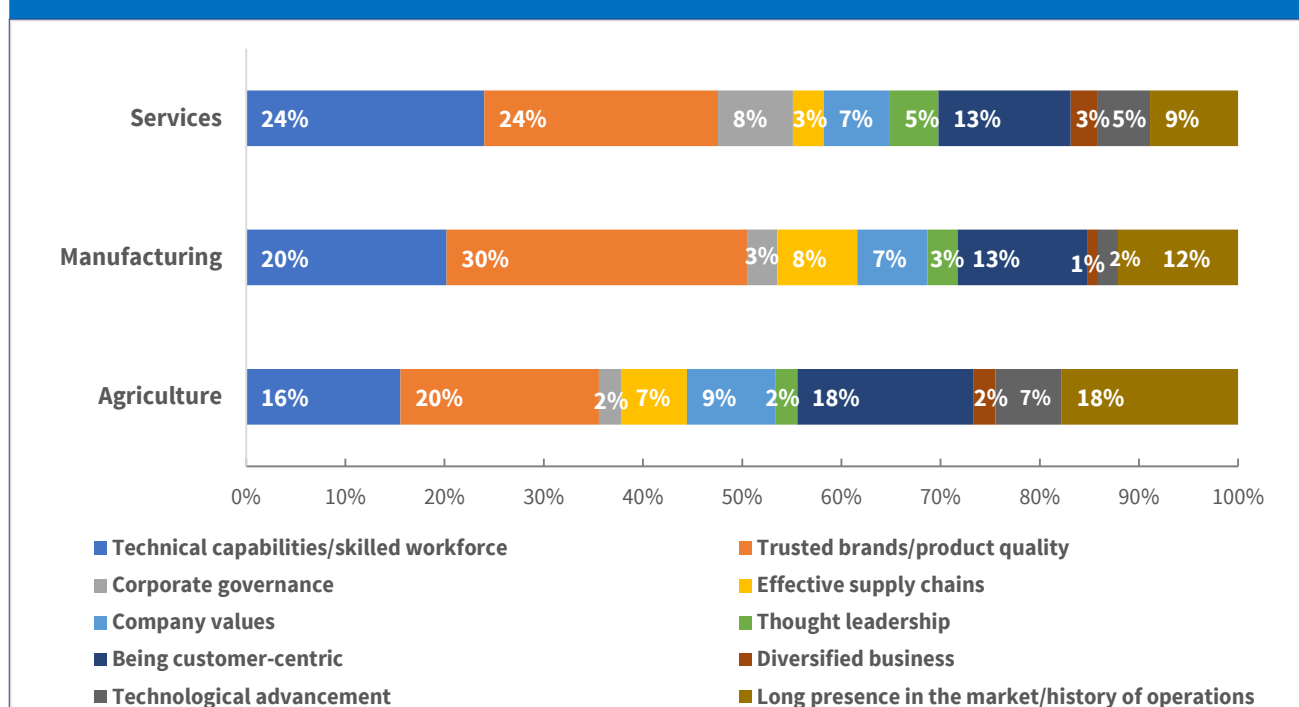
Chart 18: Firms' Top Strengths (percent of respondents)



At the sector level, besides technical capabilities and trusted brands/product quality, customer centrality 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 19**).

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

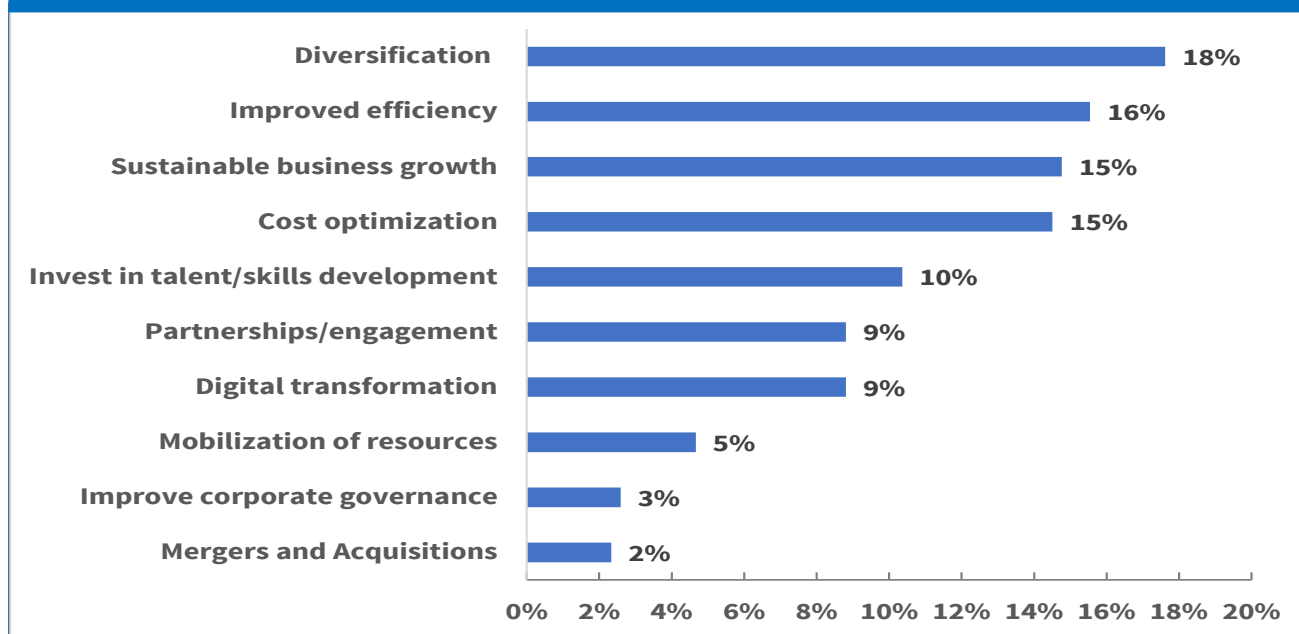


11. STRATEGIC PRIORITIES

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 and grow their businesses sustainably (**Chart 20**).

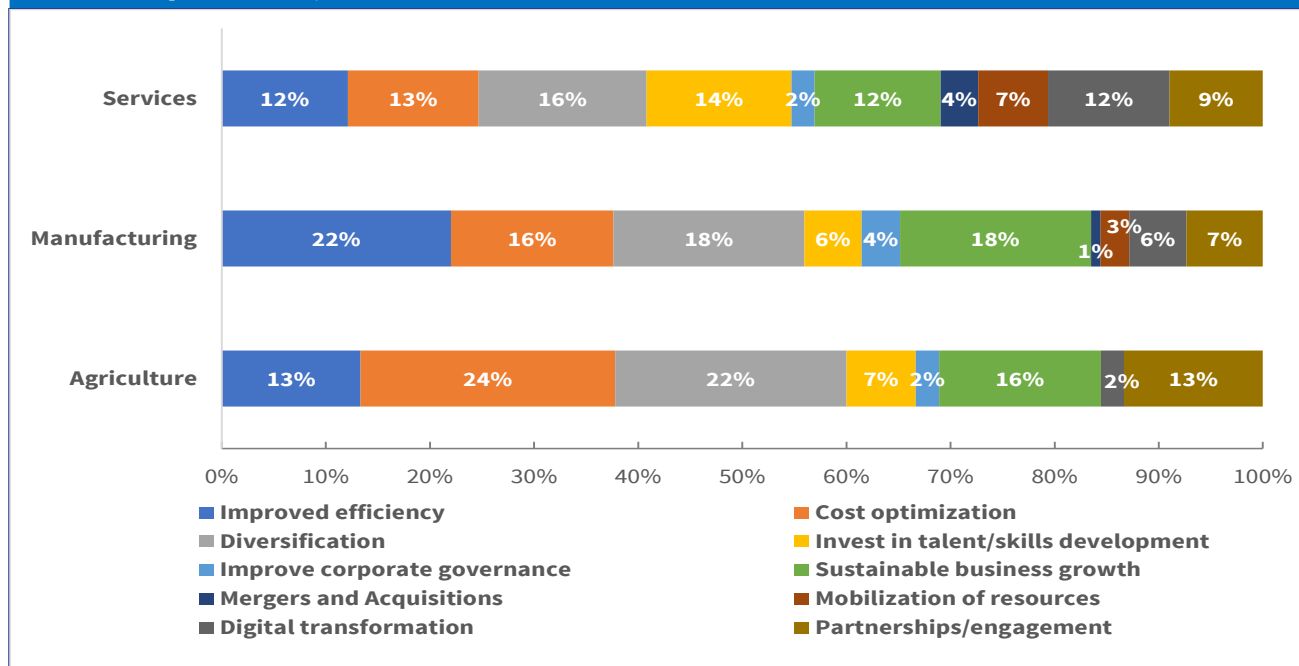
Chart 20: Firms' Strategic Priorities over the Next Three Years (percent of respondents)



Other than the common factors identified across all sectors, firms in the services sector identified investing in talent and skills development as

another important factor. Cost optimization was an equally important priority for the manufacturing and agricultural sectors (**Chart 21**).

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



12. CONCLUSION

The November 2022 CEOs Survey revealed sustained business optimism about company and sectoral growth prospects. This optimism was mainly attributed to settling in of the new government, as well as sector specific growth opportunities especially in the services sector. However, respondents highlighted concerns over domestic and global inflation, energy costs, poor weather conditions, declining consumer spending, global recession, and the continued war in Ukraine which could constrain growth.

Business activity in 2022 Q4 improved compared to 2022 Q3 with this trend expected to continue in 2023 Q1. Respondents noted that business activity increased for majority of businesses in the fourth quarter of 2022. Firms expect that business in 2023 will be supported by government expenditure. Specific sectors are also likely to experience increased demand and production due to seasonal factors. Nevertheless, the depressed rainfall is likely to negatively affect agricultural production, while any further increases in taxes could further reduce disposable incomes.

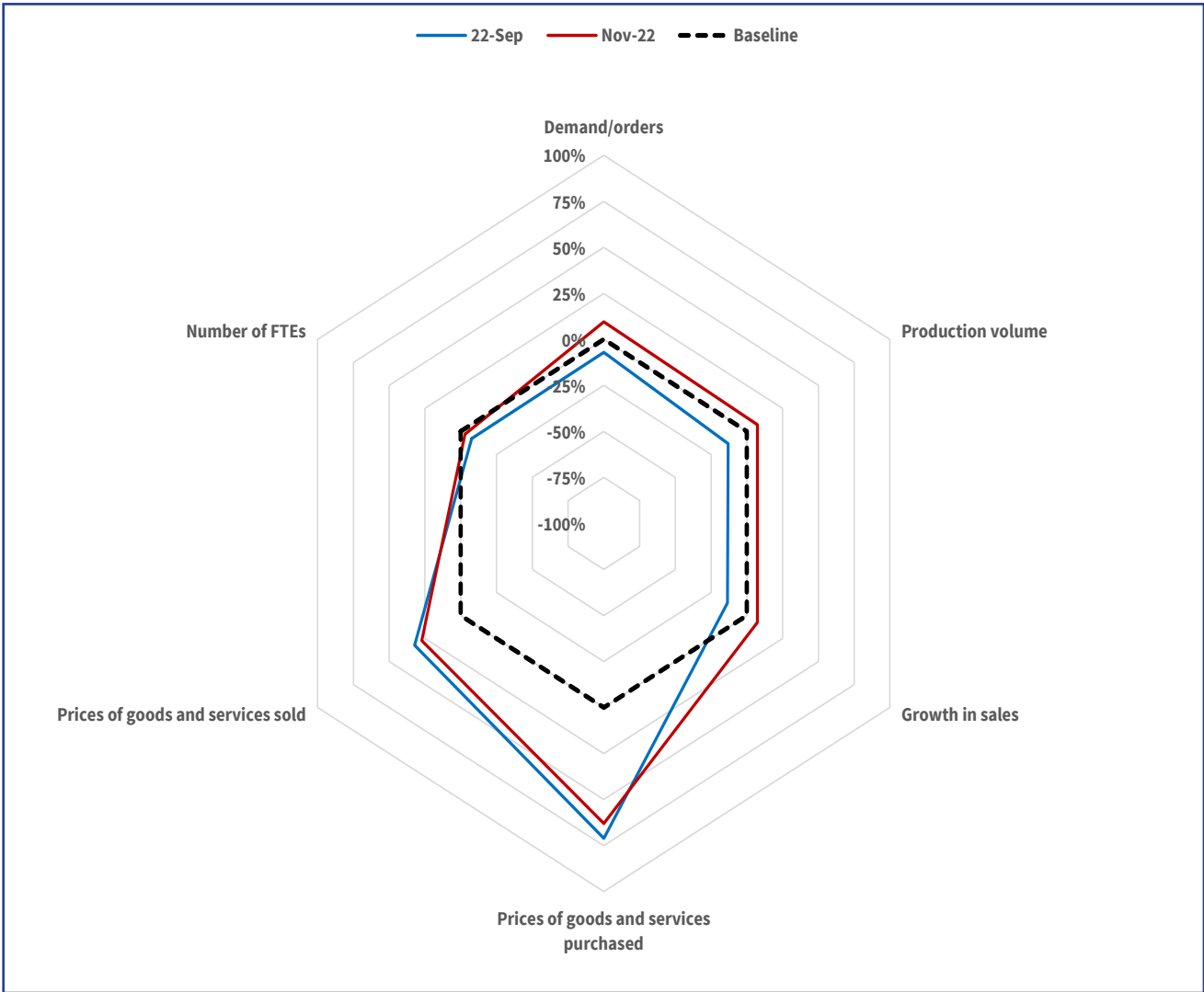
Expansion into new markets, talent management and reward strategy as well as technological innovations were identified as key factors that could drive firms' growth. In terms of constraining factors, respondents highlighted the economic environment (high inflation and the strengthening of the US dollar) and the business environment (cost of doing business) as the main domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, global recession and high energy prices as threats to their expansion. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, increased sales and marketing and digitisation of their operations.

A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms' outlook in 2022.

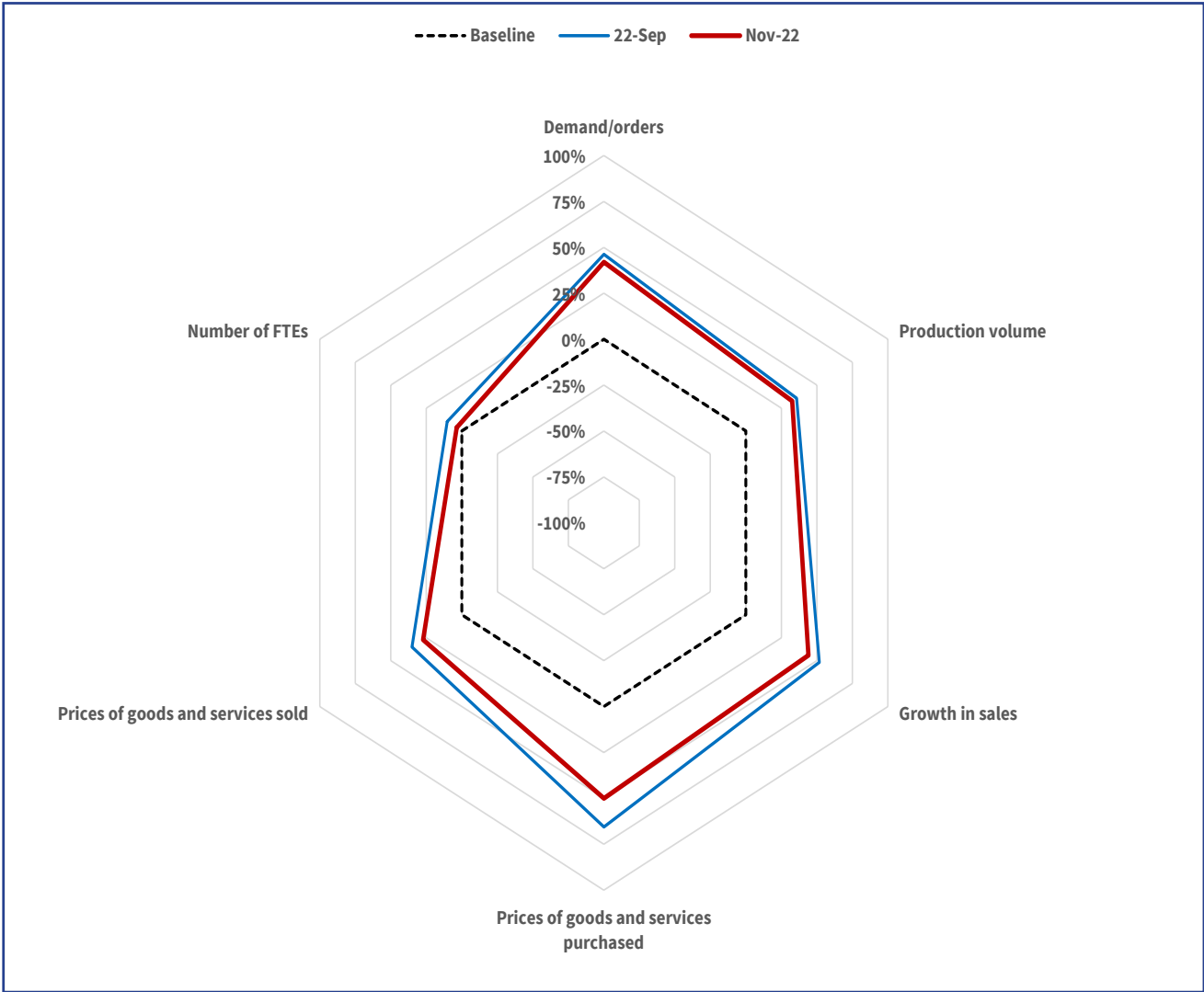
ANNEX 1: CBK BUSINESS CONFIDENCE INDEX



ANNEX 2: Q4 2022 PURCHASE PRICES



ANNEX 3: EXPECTATIONS OF Q1 2023 PURCHASE PRICES





Central Bank of Kenya

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