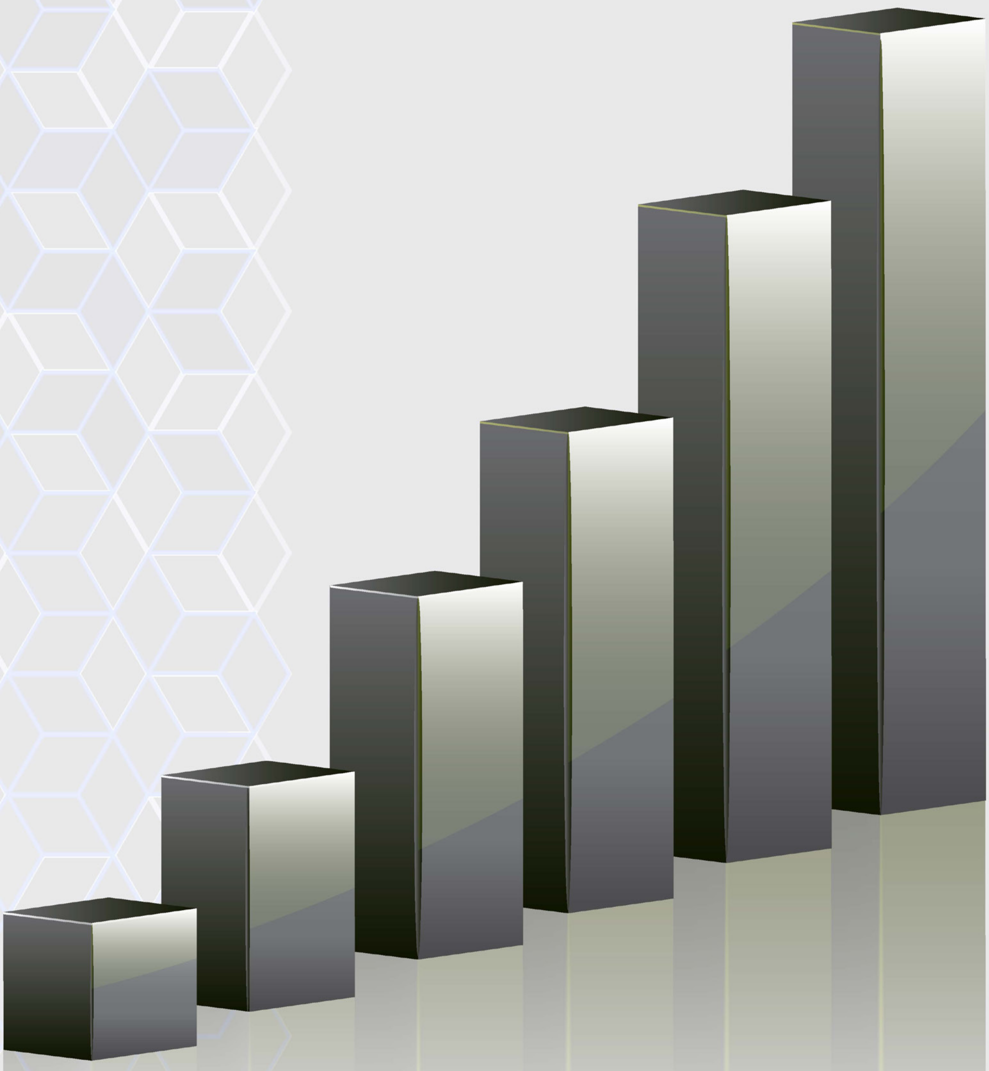
Central Bank of Kenya

Chief Executive Officers'(CEOs) Survey

JANUARY 2025



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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 also obtains feedback in terms of the suggestions that would improve the business environment.

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 13-24, 2025. 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 four (Q4) compared to 2024 quarter three (Q3), and their expectations for economic activity in the first quarter of 2025 (Q1). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (January–December 2025), as well as the strategic directions and solutions to address their key constraining factors over the medium term (January 2025–December 2027). 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 (16 percent), agriculture (13 percent), tourism, hotels, and restaurants (13 percent), financial services (13 percent), professional services (12 percent), ICT and telecommunications (7 percent), transport and storage (6 percent), healthcare and pharmaceuticals (6 percent), wholesale and retail trade (5 percent), education (5 percent), and mining and energy (2 percent). Other sectors not specified accounted for two percent of the respondents while sectors such as real estate, media, building and construction, and security, accounted for one percent each or less.

Majority of the respondents (63 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses (15 percent), government owned entities (5 percent), publicly listed foreign companies (4 percent), publicly listed domestic companies (4 percent) and other ownership structure (9 percent). Fifty two percent of the respondents had a turnover of over Ksh 1 billion in 2024, sixteen percent of the respondents had a turnover of between Ksh 250 million and 1 billion, and twenty nine percent of the respondents had a turnover of less than Ksh 250 million during the same period. In terms of employment, 37 percent of respondents employed less than 100 employees, 45 percent of the respondents had between 100 and 1000 employees, and 17 percent of respondents employed over 1000 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 are highlighted below:

- Firms reported improved optimism in growth prospects for the Kenyan economy in the next 12 months on account of expectations of favourable weather conditions and macroeconomic stability.

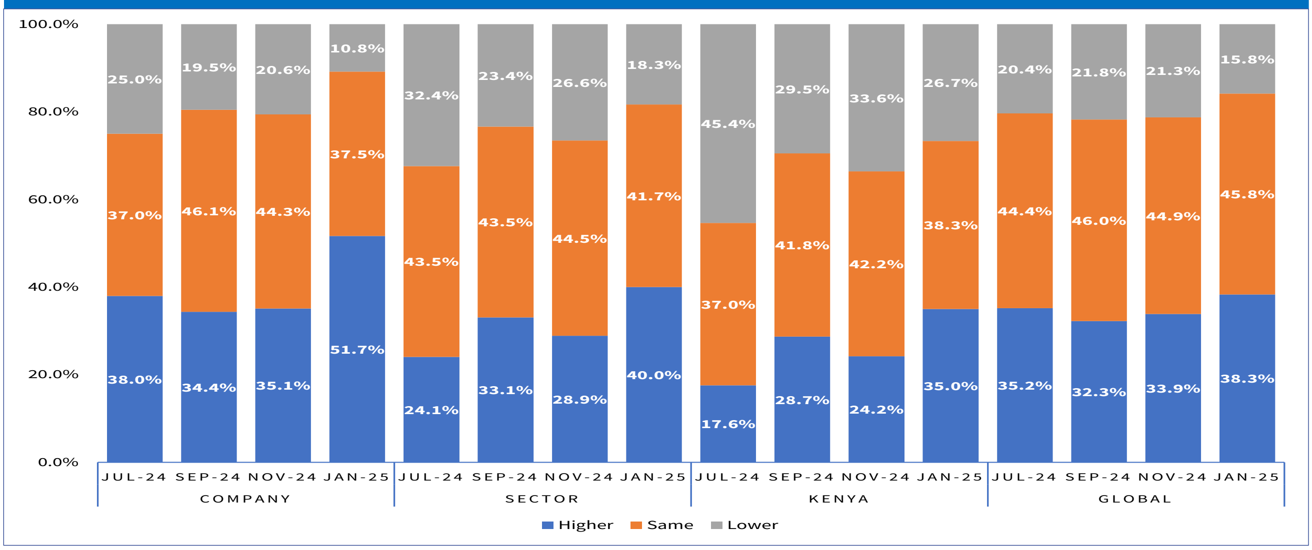
- Business optimism for company and sectoral growth prospects improved supported by sector specific strategies and sector opportunities.
- Respondents reported improved growth prospects for the global economy in the next 12 months, supported by declining interest rates and low global inflation. However, concerns around geopolitical tensions and uncertainity on the impact of tariffs on trade remain.
- Indicators of business activity improved in 2024 Q4 relative to 2024 Q3, partly driven by festive season-related demand.
- Production volumes and sales are expected to be higher in 2025 Q1 compared to 2024 Q4, driven by improved prospects of favorable economic outcomes.
- Customer centricity, talent management, expansion into new markets and technological innovations were reported as the key drivers of firms' growth over the next 12 months.
- The cost of doing business, taxation and reduced consumer demand were reported as the key factors that could constrain firms' growth.

5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

The Survey assessed the CEOs optimism in the growth prospects for their companies, sectors, the Kenyan and global economies over the next 12 months. The survey outcome shows higher growth prospects for the Kenyan economy, mainly attributed to expectations of favourable weather conditions and macroeconomic stability (stability of the shilling, declining interest rates, and low inflation)**(Chart 1)**. However, the cost of doing business remains a concern. Company growth prospects for the next 12 months are higher, supported by specific strategies to boost growth, such as diversification of markets and product portfolio, customer centric approach to operations, improving efficiency through innovations, increased marketing of products, partnerships and strategic acquisitions. However, liquidity challenges (including from pending bills and limited access to credit facilities), subdued consumer demand, and cost of doing business are key factors that could constrain growth at company level.

Firms reported higher sectoral growth prospects. However, drivers of growth are varied across sectors **(Chart 2)**. The agriculture sector growth prospects are higher, driven by expectations of favorable weather conditions and improved demand for agricultural exports, particularly in the European Union. However, respondents in the sector reported that any additional farm produce levies could hurt the sector. Meanwhile, challenges around limited air freight capacity for agricultural exports persist. The manufacturing sector is expected to perform better, supported by stability of energy prices and the exchange rate, and declining interest rates. However, cost of doing business, competition from imports and subdued consumer demand are key concerns by players in the sector. The financial services sector growth prospects are largely driven by portfolio diversification, growing customer base and the declining interest rates, which are expected to enhance loan repayments and flow of credit to the private sector. However, liquidity constraints due to economic conditions remain at both household and business levels.

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

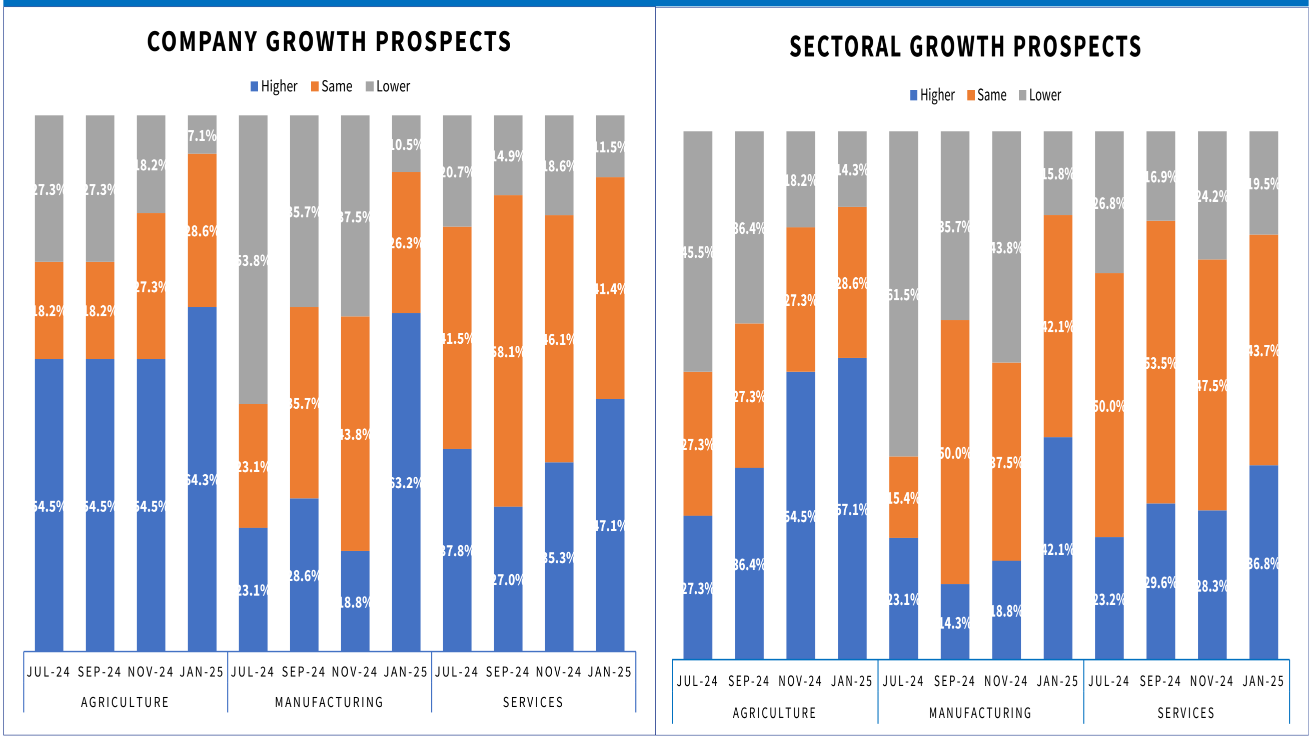


The education sector continues to benefit from increased demand for educational services and uptake of digital learning. The Information and Communication Technology (ICT) sector growth prospects are driven by growing demand and innovation, particularly on pro fintech products. The tourism, hotels and restaurants sector growth is largely supported by increased demand for travel. However, respondents reported that unfavourable policies in the sector such as multiple levies and taxes, and increased park fees for tourists (both local and international) continue to hurt the performance of the sector.

Meanwhile, growth prospects for some sectors moderated. For instance, firms in the health sector reported expectations of subdued activity, mainly due to the transitional challenges with the new Social Health Insurance Fund, particularly on delayed payment of claims. Moreover, they reported that the sector faced uncertainty around donor funding of health programs as a result of the policy changes by the new US Administration. The wholesale and retail trade, and transport and storage sectors are likely to be impacted by the reported subdued consumer demand.

Firms reported improved global growth prospects in the next 12 months, supported by declining interest rates in major economies and low global inflation. However, concerns remain over continued geopolitical tensions, the expected policy changes by the new US Administration, and the resultant impact.

Chart 2: Company and Sectoral analysis of growth prospects over the next 12 months (percent of respondents)



6. BUSINESS ACTIVITY IN 2024 Q4 COMPARED TO 2024 Q3

The Survey sought CEOs perceptions on business activity in the fourth quarter of 2024 relative to the third quarter. More firms recorded improved business performance in the fourth quarter of 2024, partly driven by seasonal factors. Particularly, the balance of opinion[1] in the January Survey shows that more respondents reported higher demand orders, production volumes, and sales growth in the fourth quarter of 2024 compared to the third quarter. Similarly, sales and purchase prices were higher reflecting price stickiness, and cost of doing business. Meanwhile, the number of full-time employees remained stable, indicative of the appropriateness of the staffing levels in handling the level of business activity **(Chart 3)**.

During the quarter, growth in sales was recorded across all three sectors while demand orders were higher in the agriculture and manufacturing sectors. Production volumes were higher in the agriculture sector, while stability in production was reported in the manufacturing and services sectors, in line with seasonality trends. Purchase prices were highest in the agriculture sector, reflective of the cost of farm inputs during the short rains planting season. Meanwhile, the number of full-time employees remained stable across all sectors **(Chart 4 to 9)**.

Chart 3: Business activity in 2024 Q4 compared to 2024 Q3 (percent of respondents)

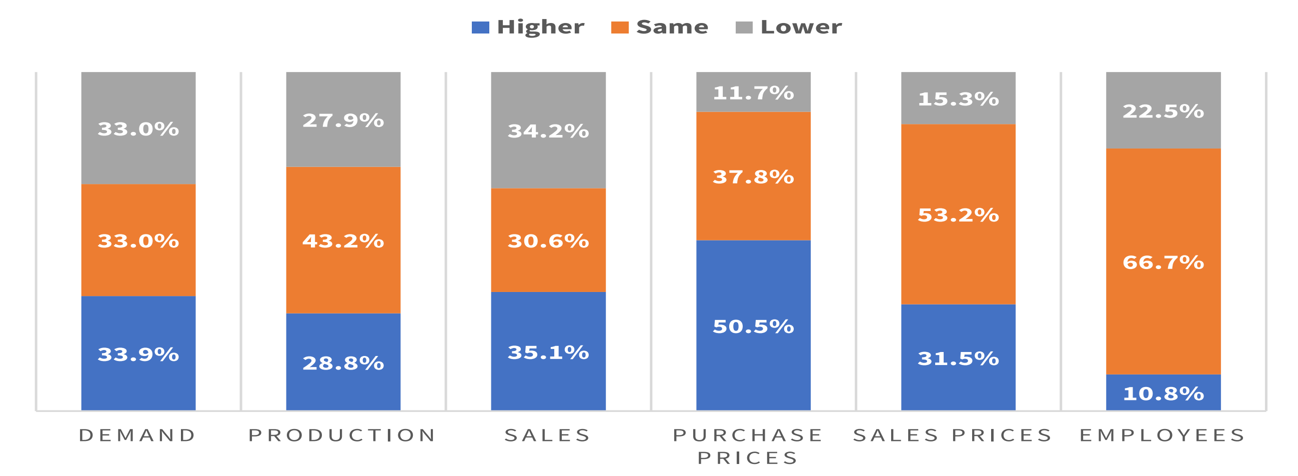
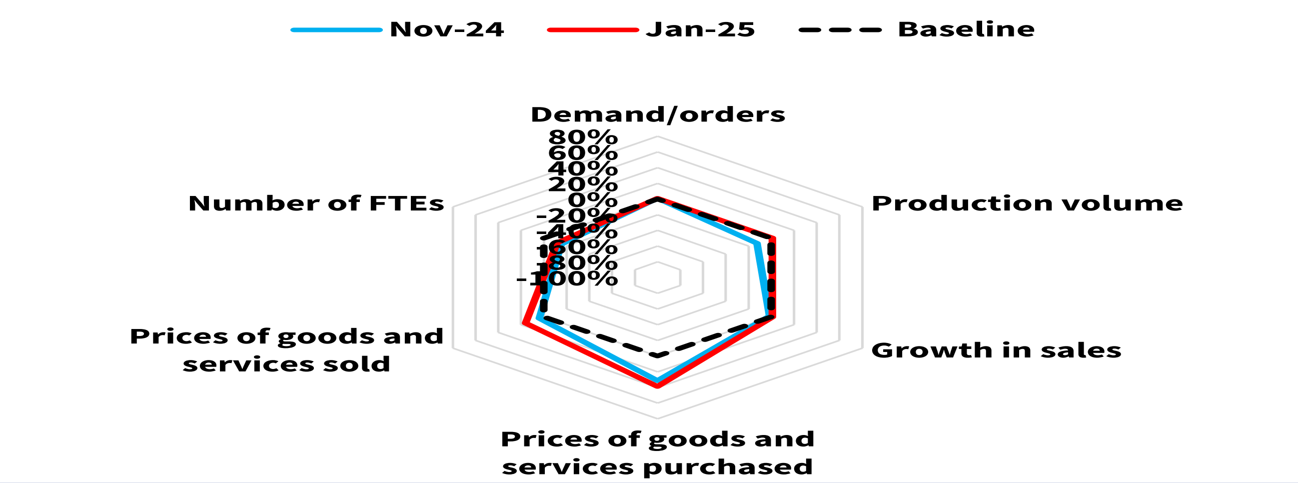


Chart 4: Business activity in 2024 Q4 compared to 2024 Q3 (Balance of opinion)



[1] Balance of Opinion (BOO) refers to the difference between the proportion of respondents that expressed a positive opinion and those that expressed a negative opinion.

Chart 5: Demand/Orders in 2024 Q4 relative to 2024 Q3 by sectors (percent of respondents)

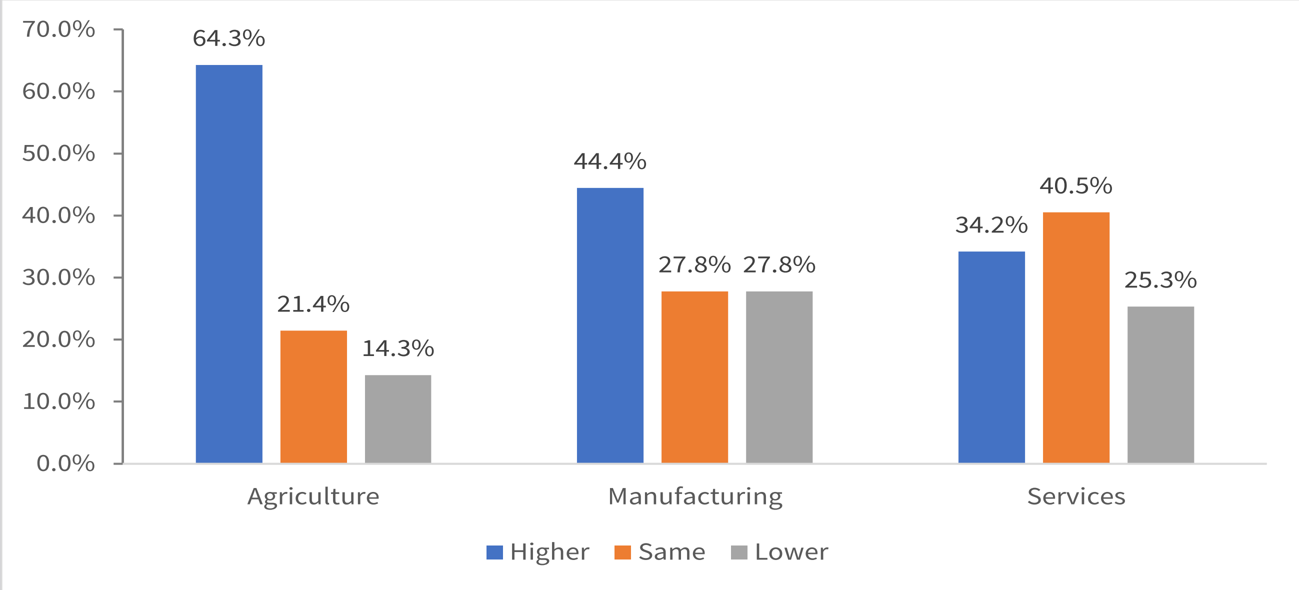


Chart 6: Sales growth in 2024 Q4 relative to 2024 Q3 by sectors (percent of respondents)

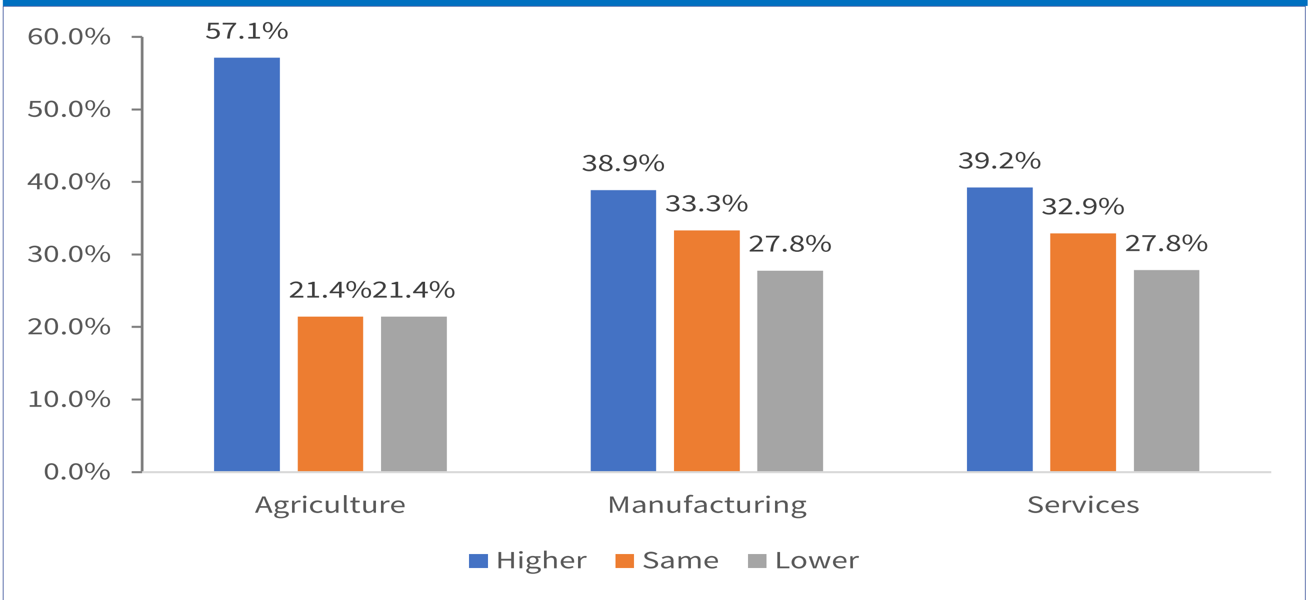


Chart 7: Purchase prices in 2024 Q4 compared to 2024 Q3 by sectors (percent of respondents)

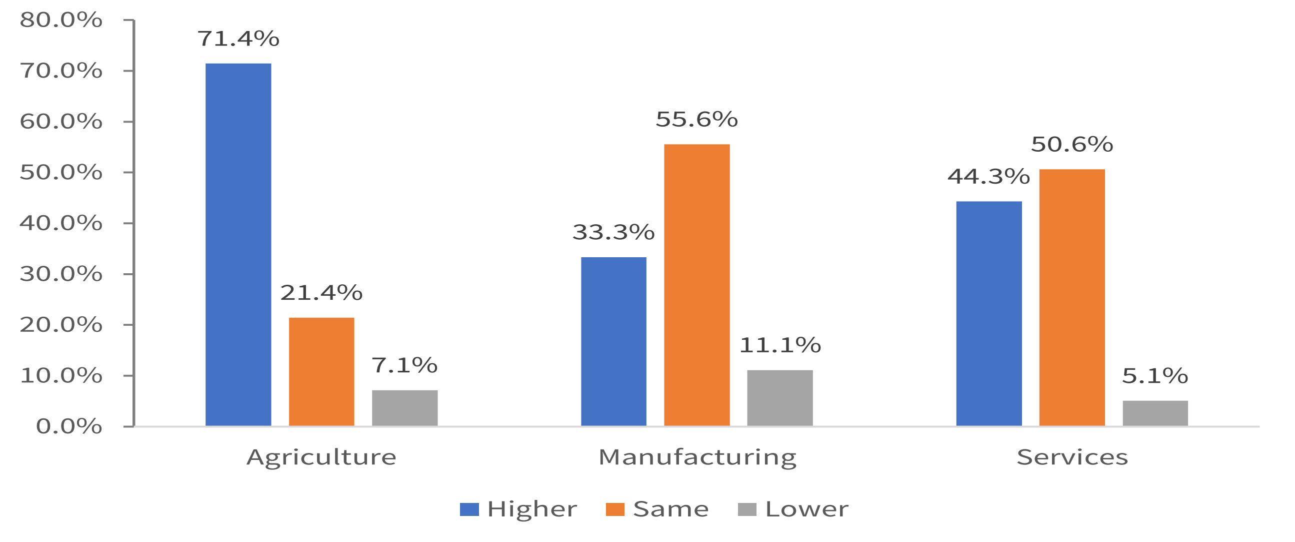


Chart 8: Production volumes in 2024 Q4 compared to 2024 Q3 by sectors (percent of respondents)

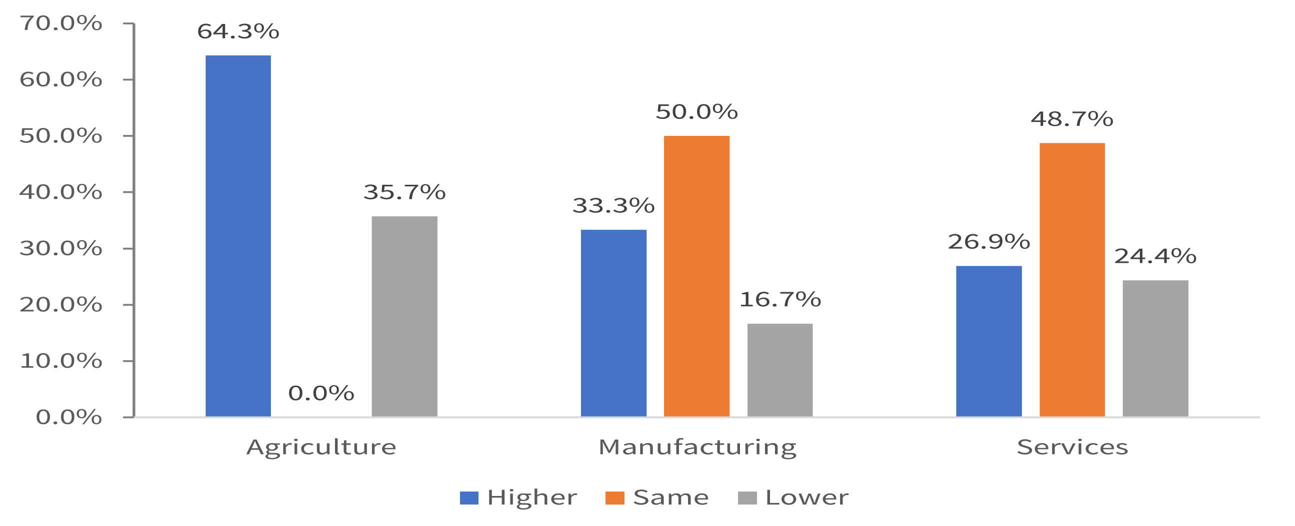
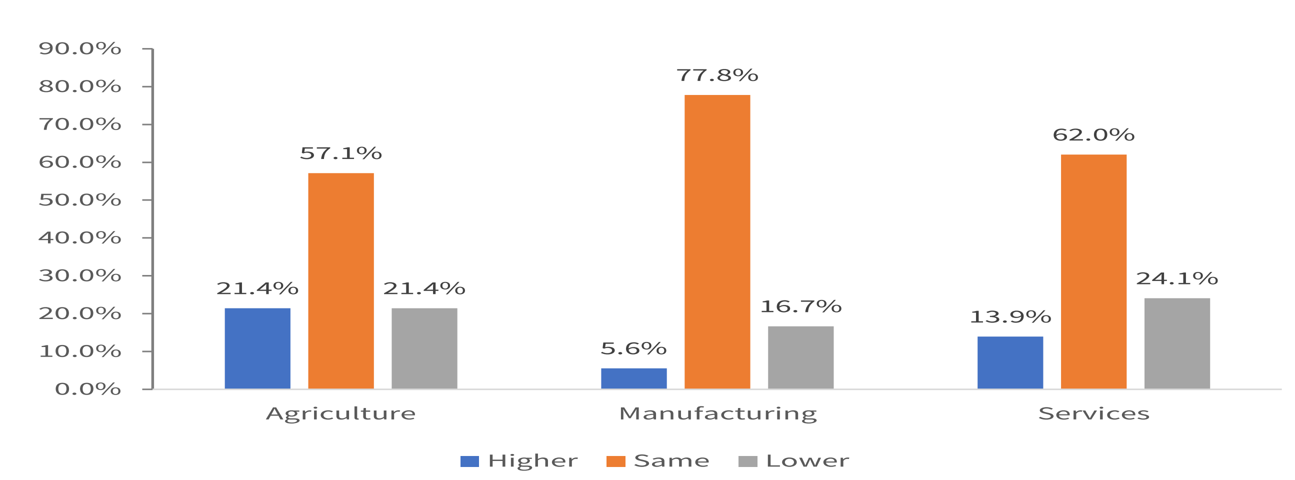


Chart 9: Number of full-time employees in 2024 Q4 compared to 2024 Q3 by sectors (percent of respondents)



7. OUTLOOK FOR BUSINESS ACTIVITY IN 2025 Q1 COMPARED TO 2024 Q4

The Survey sought CEOs expectations of business activity in the first quarter of 2025 relative to the fourth quarter of 2024. A larger proportion of the respondents reported improved business prospects in 2025 Q1 relative to 2024 Q4 despite the subdued demand. The balance of opinion shows expectations of higher demand orders, production volumes, and growth in sales. However, purchase and sales prices are expected to remain elevated, while the number of full time employees is expected to remain largely unchanged **(Chart 10 &11)**.

Chart 10: Outlook on business activity in 2025 Q1 compared to 2024 Q4 (percent of respondents)

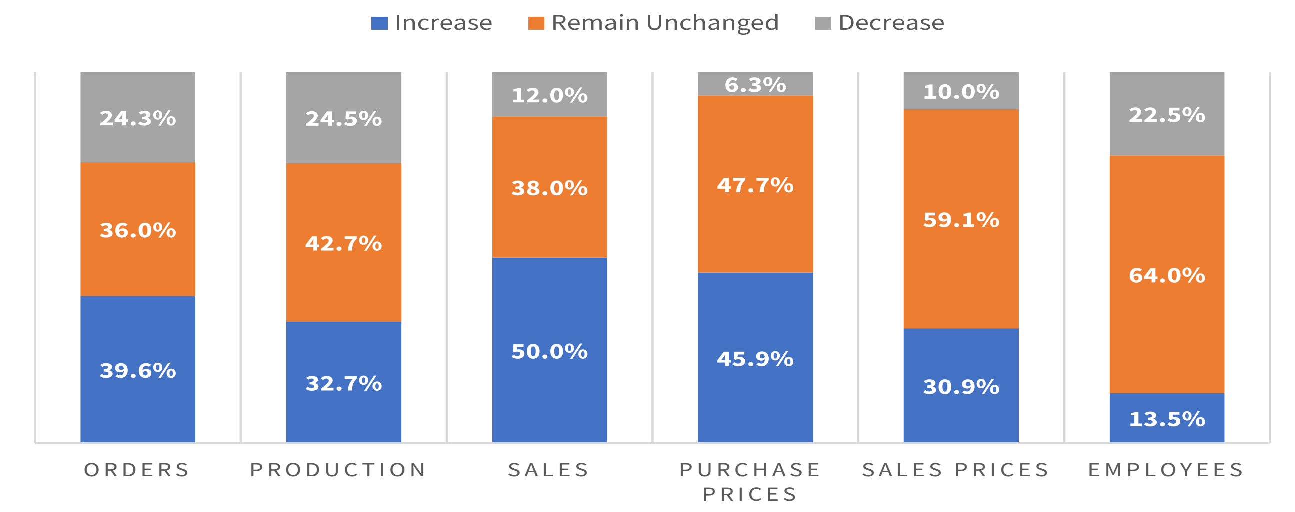
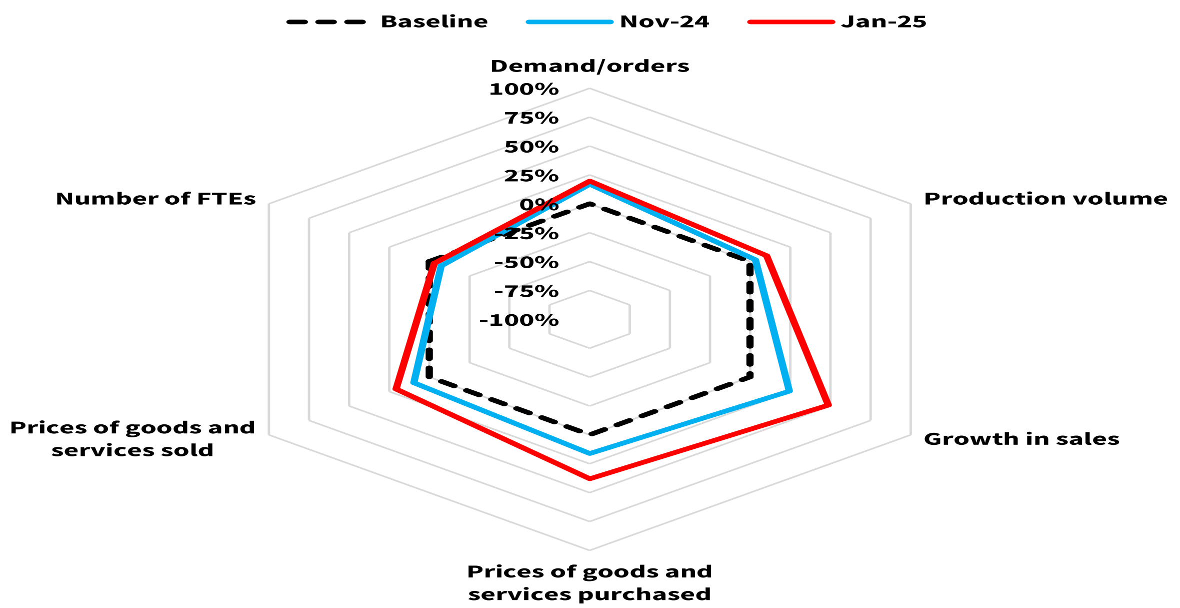
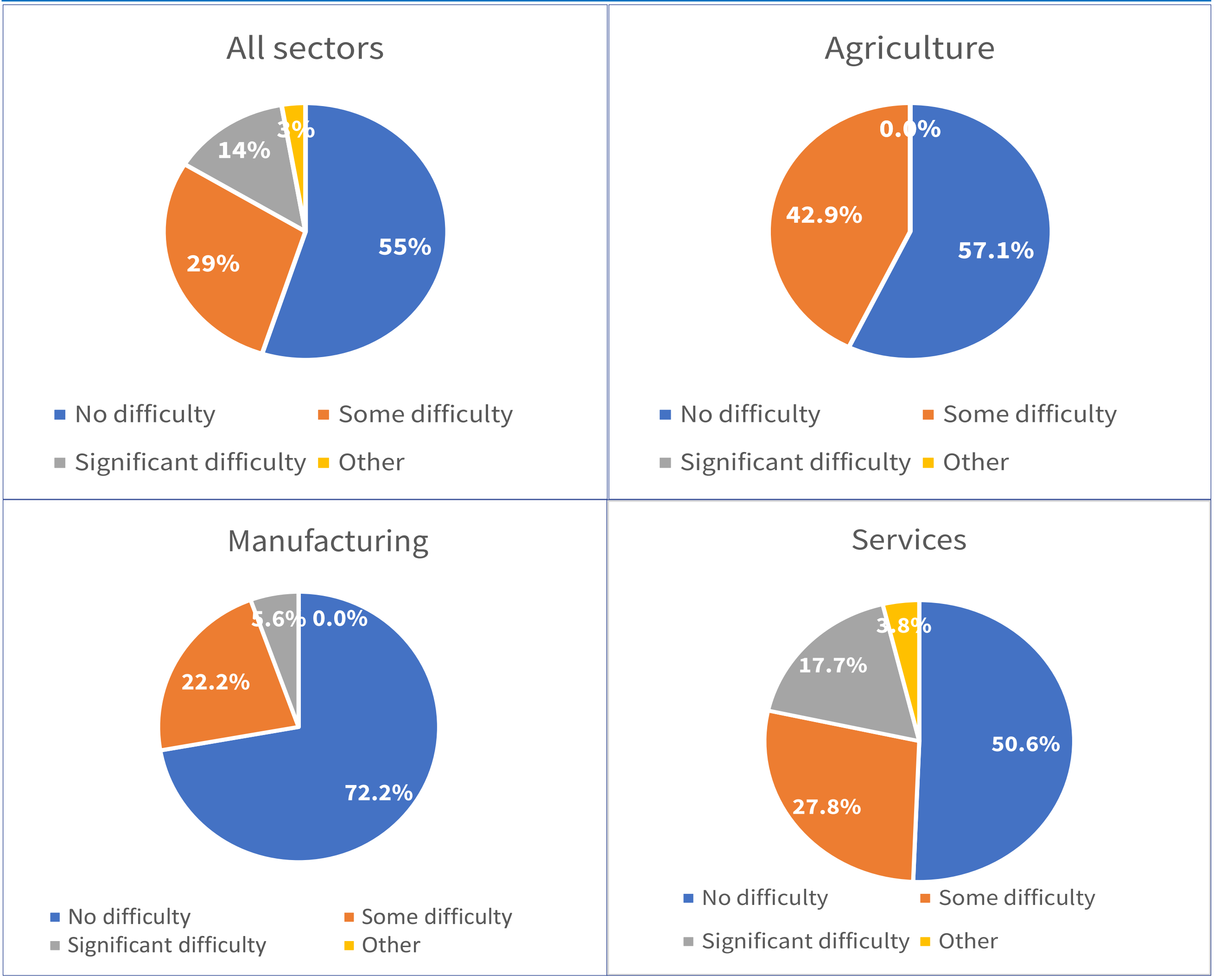


Chart 11: Expectations of business activity in 2025 Q1 (Balance of opinion)



More firms reported easing constraints on capacity to expand production, largely supported by availability of resources such as existing idle capacity, infrastructure, labor, technology; access to supplies expectations of improved access to credit supported by the declining interest rates and stock carryovers resulting from subdued demand. However, some challenges such as liquidity constraints emanating from limited access to credit and pending bills and elevated cost of doing business were reported by CEOs **(Chart 12)**.

Chart 12: Potential level of difficulty in meeting increased demand (percent of respondents)

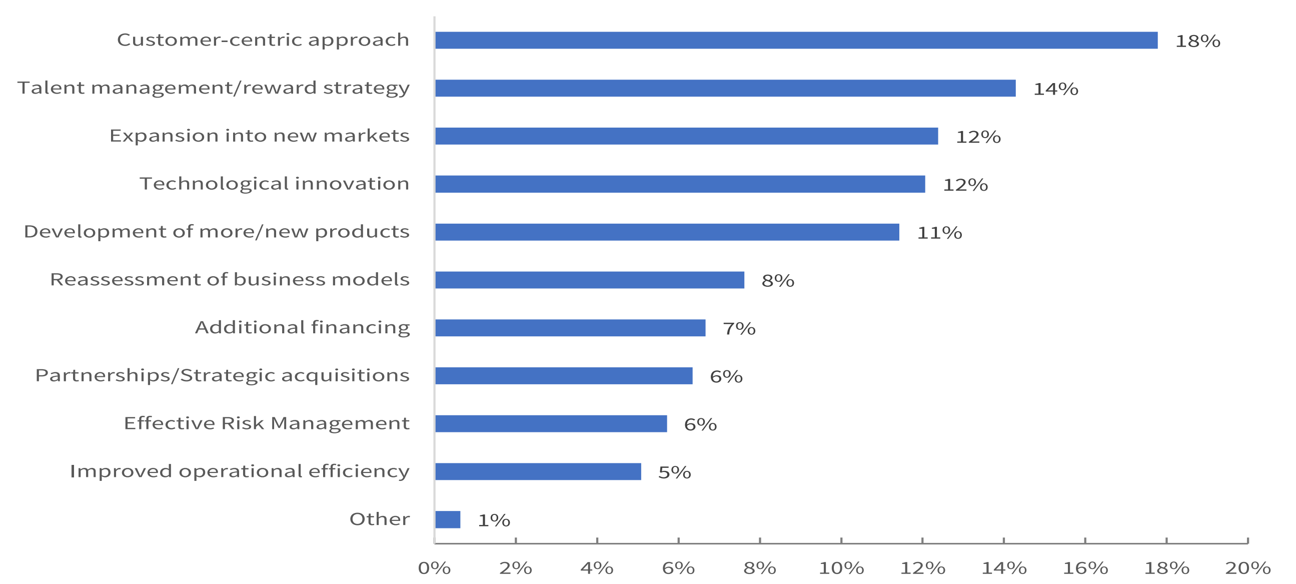


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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

Customer centricity, talent management, expansion into new markets and technological innovations were reported as the key drivers of firms' growth over the next 12 months **(Chart 13)**.

Chart 13: Drivers of firm expansion (percent of respondents)



Firms reported taxation, cost of doing business and reduced consumer demand as the key factors that could constrain growth in the next 12 months **(Chart 14 & 15)**.

Chart 14: Domestic factors constraining firms' expansion (percent of respondents)

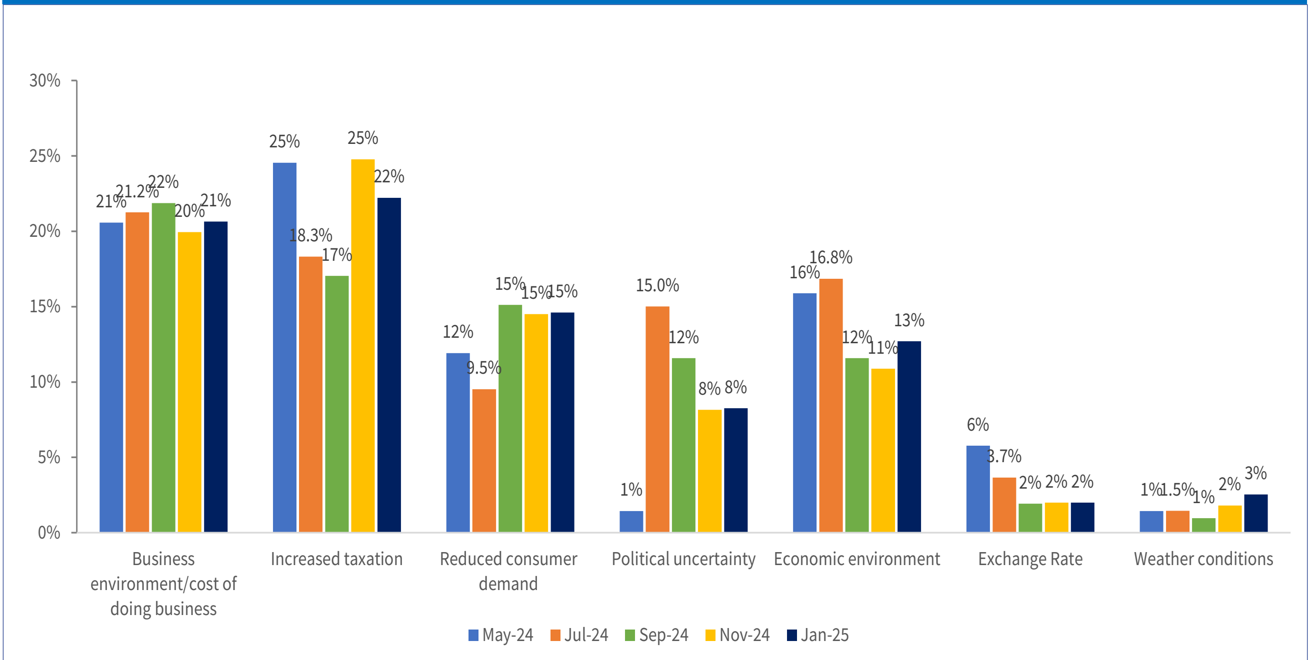
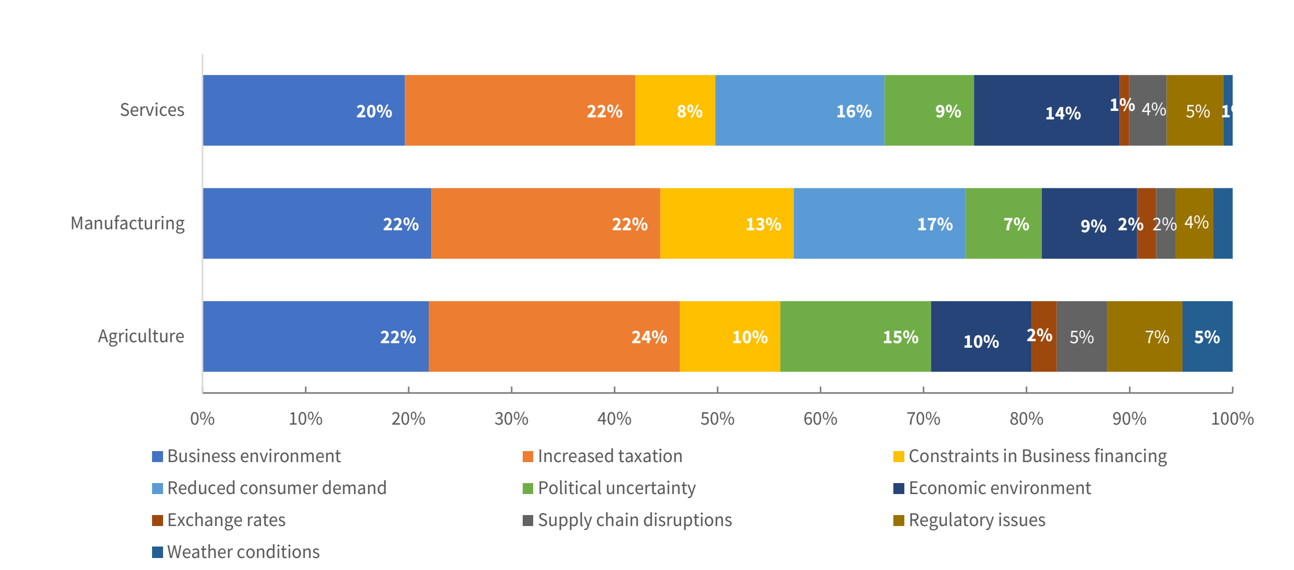
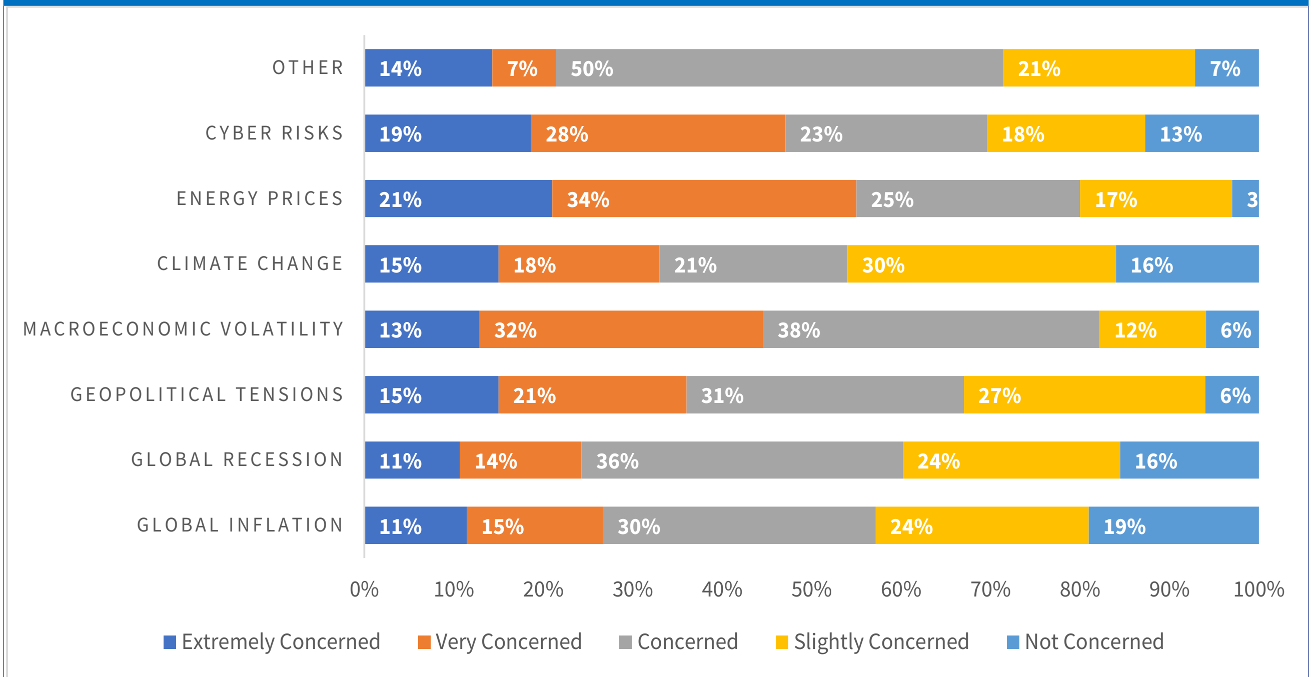


Chart 15: Domestic factors constraining firms' expansion by sectors (percent of respondents)



Developments in energy prices, escalation of geopolitical tensions and macroeconomic volatility are reported as the major external (non-domestic) threats to business expansion **(Chart 16)**.

Chart 16: External threats impacting firms' expansion (percent of respondents)



Firms are employing varied strategies to mitigate their constraining factors to growth. The key strategies include management of costs and risks, diversification (expansion into new markets and developing new products) and increased sales and marketing **(Chart 17 &18)**.

Chart 17: Firms' proposed solutions to factors constraining growth (percent of respondents)

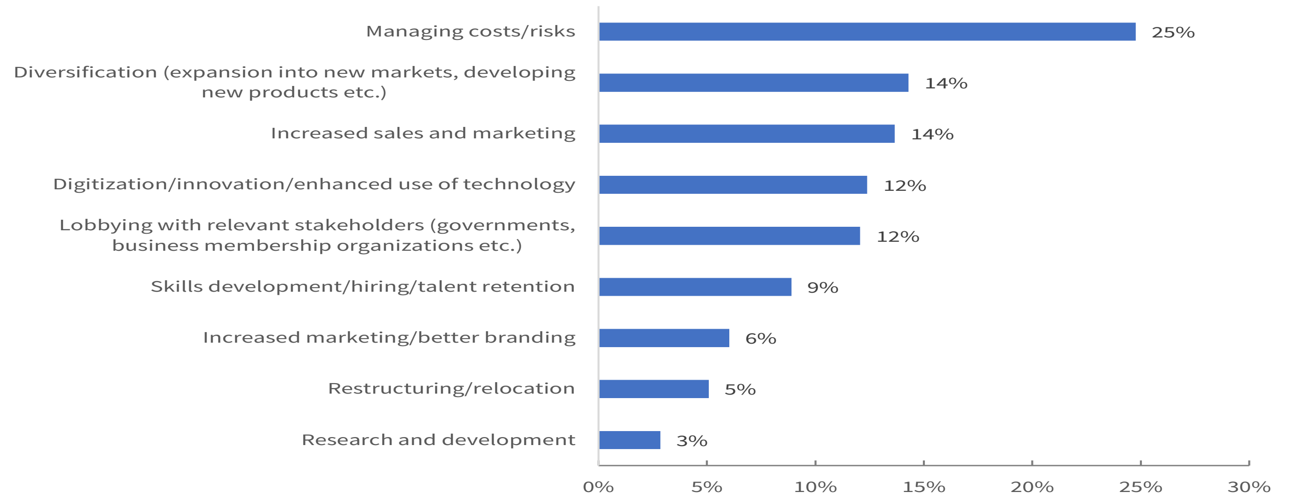
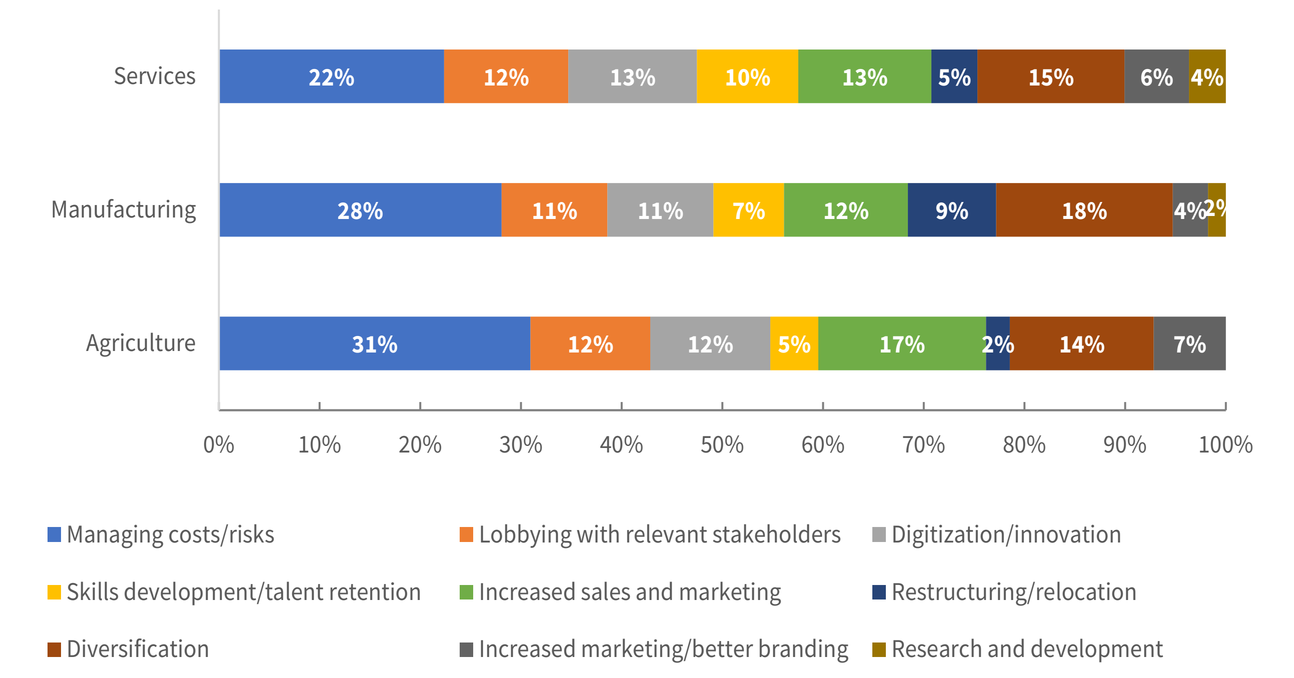


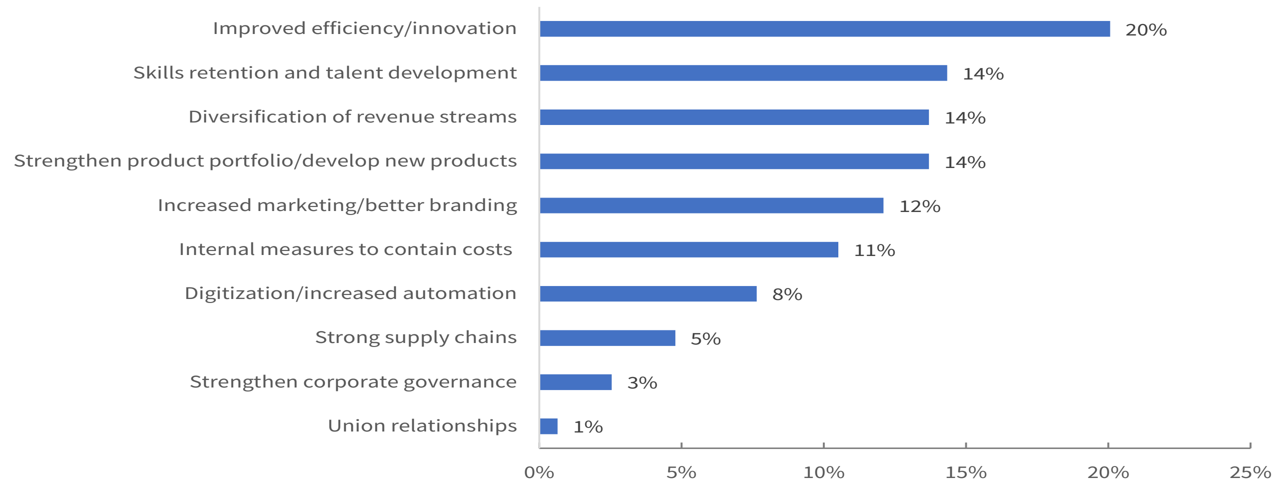
Chart 18: Firms' proposed solutions to factors constraining growth by sector (percent of respondents)



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

Firms reported improved efficiency and innovation, skills retention and talent management, diversification of revenue streams, and strengthening of the product portfolio as the main internal factors that could strengthen the firms' outlook over the next 12 months **(Chart 19)**.

Chart 19: Internal factors that could strengthen firms' outlook (percent of respondents)



A stable economic environment, easing cost of doing business, certainty around taxation issues are some of the key external factors that could strengthen firms' outlook over the next 12 months **(Chart 20 & 21)**.

Chart 20: External factors that could strengthen firms' outlook (percent of respondents)

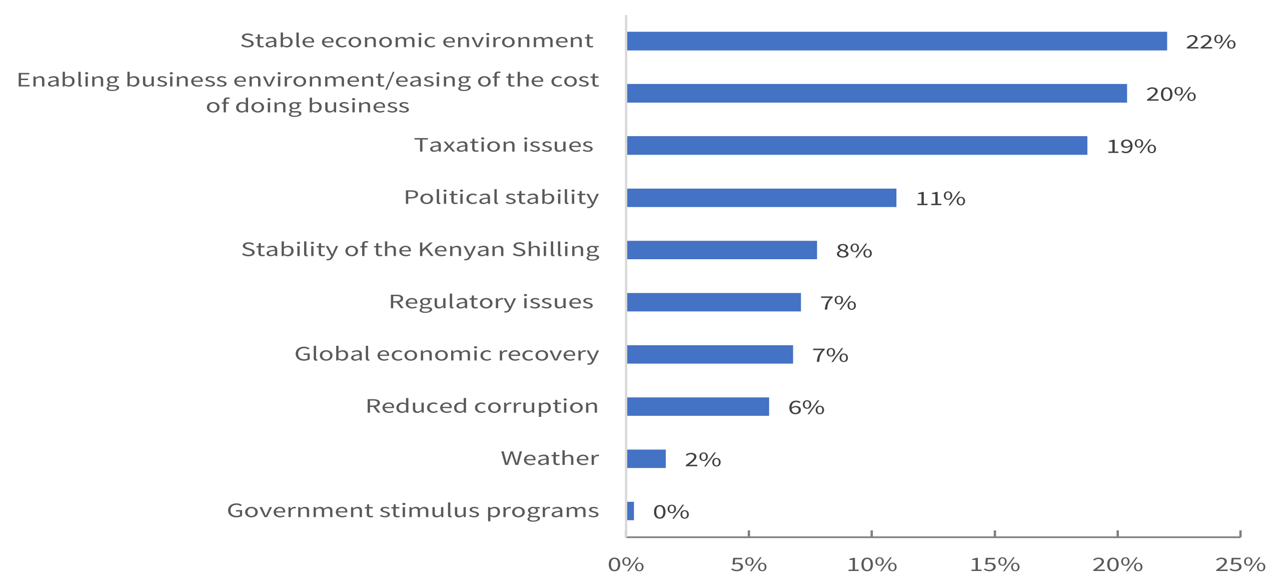
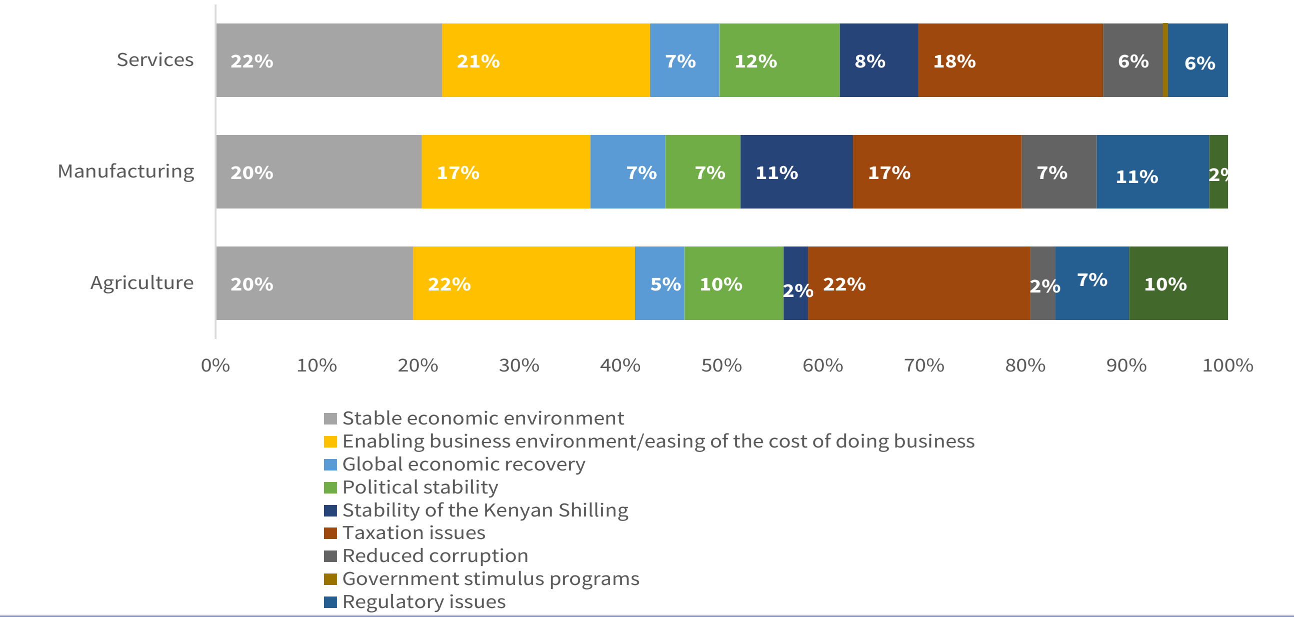


Chart 21: External factors that could strengthen firms' outlook by sectors (percent of respondents)

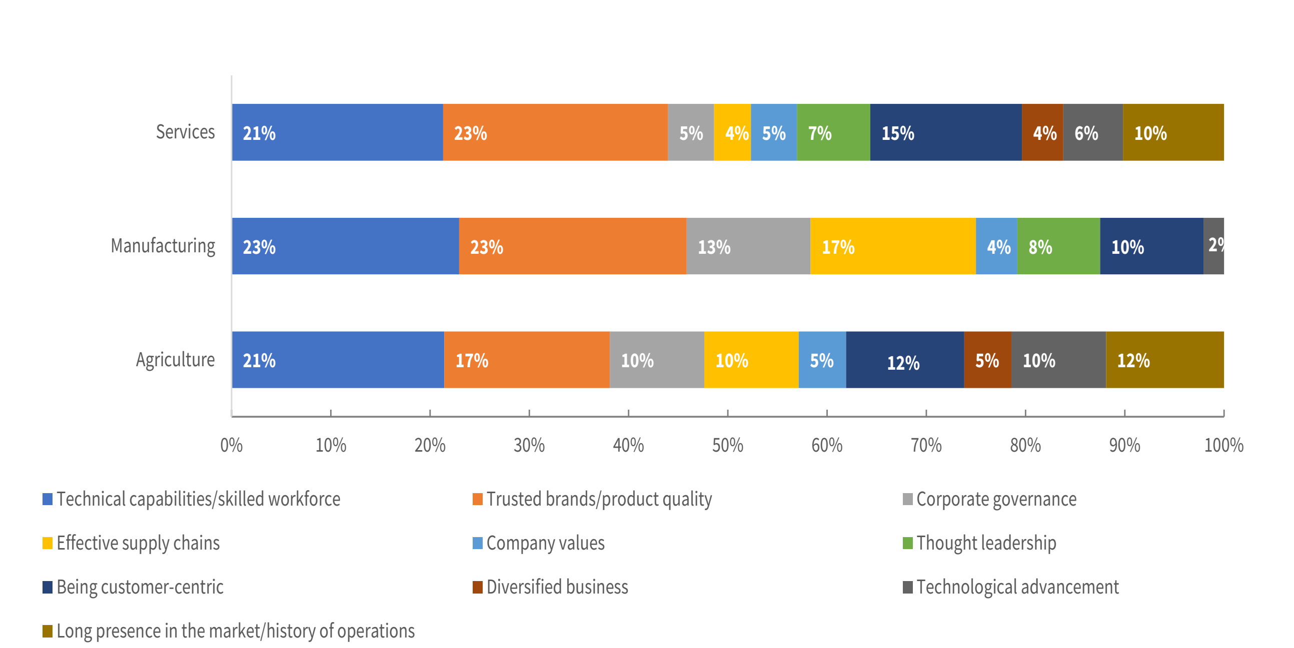


10. TOP COMPANY STRENGTHS

Firms reported trusted brands and product quality, technical capabilities and skilled workforce, and customer centricity as the top areas of strength for the company **(Chart 22 & 23)**.

Chart 22: Firms' top strengths (percent of respondents)

Chart 23: Firms' top strengths by sectors (percent of respondents)



11. STRATEGIC PRIORITIES

More respondents reported improved efficiency, cost optimization and diversification of operations as key strategic priorities over the next three years **(Chart 24 & 25)**.

Chart 24: Firms' strategic priorities over the next three years (percent of respondents)

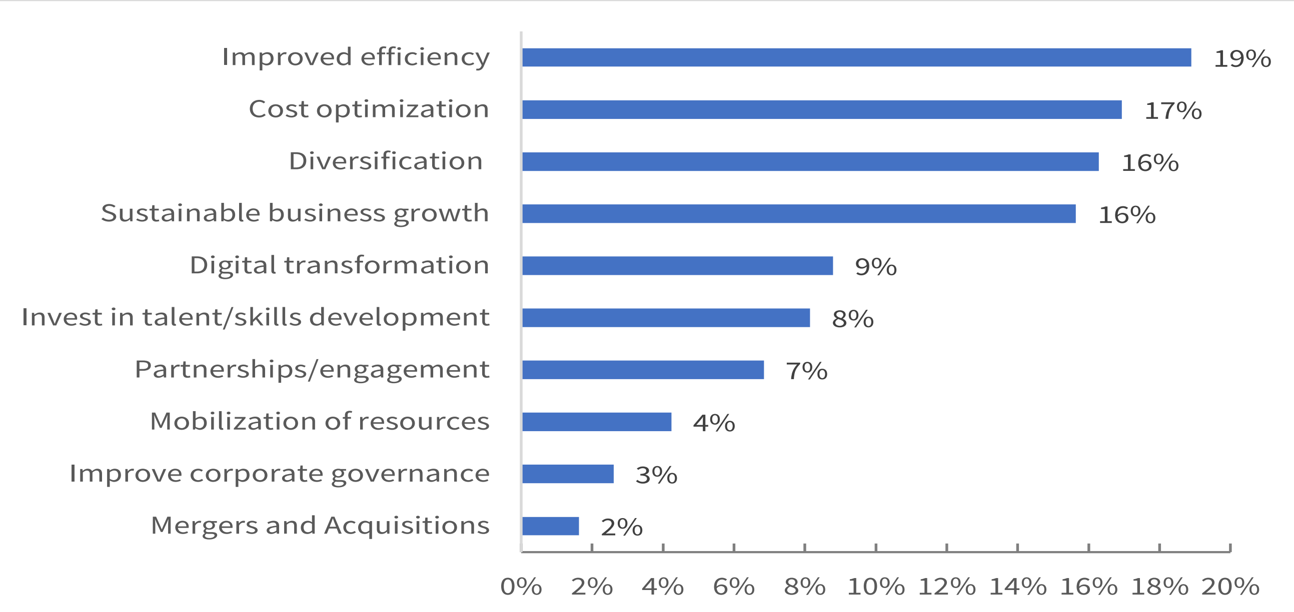
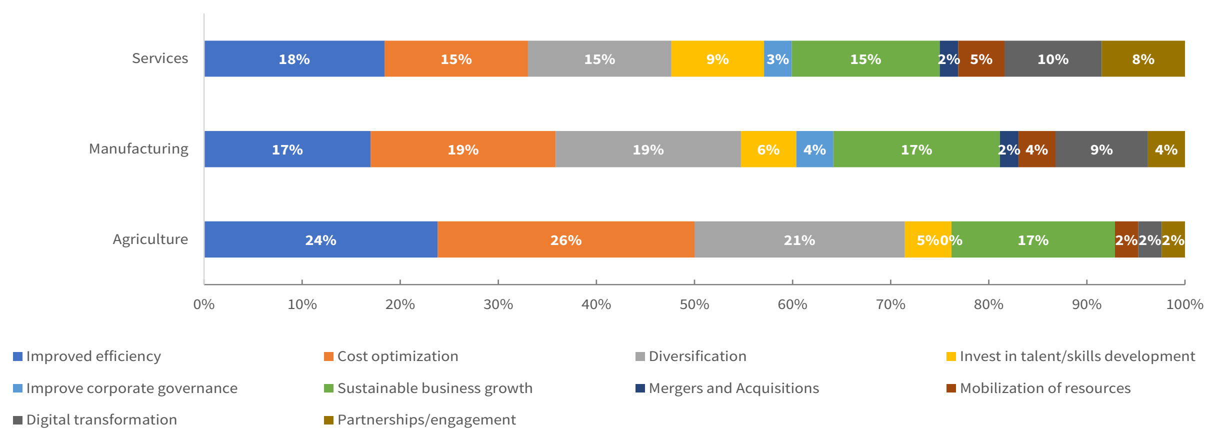


Chart 25: Firms' strategic priorities over the next three years by sector (percent of respondents)



12. CONCLUSION

The January 2025 CEOs Survey showed higher growth prospects for the Kenyan economy over the next 12 months, driven by expectations of favourable weather conditions and macroeconomic stability (stability of the shilling, declining interest rates, and low inflation). However, firms reported the cost of doing business as a key concern.

Indicators of business activity improved in 2024 Q4 relative to 2024 Q3, partly driven by seasonal factors. Production volumes and sales are expected to be higher in 2025 Q1 compared to 2024 Q4, driven by improved prospects of economic outcomes.

Customer centricity, talent management and expansion into new markets are the key drivers of firms' growth and expansion over the next 12 months. However, the cost of doing business, taxation and reduced consumer demand could constrain firms' growth.

More firms reported easing constraints on capacity to expand production, supported by availability of idle capacity, access to supplies, inventory build up and expectations of access to credit facilities due to declining interest rates.

Improved efficiency through innovations, strengthened product portfolio, and increased marketing of products were some of the identified internal factors that would strengthen the firms' economic outlook.

In the medium term (next 3 years), firms are prioritizing diversification of operations, improving efficiency, and cost optimization to boost growth.

13. RECOMMENDATIONS ON HOW THE BUSINESS ENVIRONMENT CAN BE IMPROVED

The respondents gave proposals on how the business and economic environment in Kenya can be enhanced to boost growth. These include :

i. Open skyways to allow more airlines, flights and routes to promote tourism. Streamline operations at all the country's entry ports as they are the tourists' first points of contact with the country.
ii. Focus on areas of strength for the country – aggressively market the country and create a positive image to attract long term investments.
iii. Implement policies that promote lending to businesses as firms are facing challenges accessing credit, despite the declining interest rates.
iv. Create certainty around taxation as there are abrupt changes in the regulatory framework and tax structure.
v. Provide resolutions of the persistent capacity limit on air freight services for agricultural exporters.

vi. Implement policies that promote local production enhance competitiveness and protect local manufacturers from dumping.
vii. Ease the business environment by reducing the cost of doing business.

Central Bank of Kenya

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