Central Bank of Kenya

Chief Executive Officers'(CEOs) Survey

JULY 2024

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1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the 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 informs 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. It 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 suggestions by respondents 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 July 8 and 18, 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 two (Q2) compared to 2024 quarter one (Q1), and their expectations for economic activity in the third quarter of 2024 (Q3). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (July 2024 – June 2025), as well as the strategic directions and solutions to address their key constraining factors over the medium term (July 2024 – June 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: tourism, hotels, and restaurants (14 percent), financial services (13 percent), healthcare and pharmaceuticals (13 percent), manufacturing (10 percent), agriculture (11 percent), ICT and telecommunications (6 percent), wholesale and retail trade (6 percent), professional services (4 percent), real estate (4 percent), and transport and storage (3 percent). Other sectors such as education, building and construction, mining and energy, security and media accounted for two percent each or less.

Majority of the respondents (63 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses (26 percent), publicly listed domestic companies and government owned entities. Thirty seven percent of the respondents had a turnover of over Ksh 1 billion in 2023. In terms of employment, 45 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:

- The respondents reported that there was sustained optimism for company and global growth prospects. Company prospects are largely driven by targeted strategies to enhance business activity, while global growth prospects are anchored on easing global inflation and expectations of further interest rates cuts.
- Moderated business optimism for sector and Kenyan economic growth prospects was reported mainly on account of uncertainty around protests and consequent disruptions to business activity.
- Indicators of business activity in 2024 Q2 remained relatively unchanged from 2024 Q1. Respondents expect the level of activity to remain relatively stable in 2024 Q3.
- Customer centricity, talent management, and technological innovations are some of the key

factors expected to drive firms' growth in the next one year.

- Concerns around taxation are lower, following withdrawal of the Finance Bill 2024.
- The elevated cost of doing business and the uncertainty around protests are some of the key domestic factors constraining firms' growth in the next 12 months. However, easing inflation, stability of the shilling, and good weather prospects continue to support growth.
- Firms have employed several strategies to mitigate their constraining factors to growth in the next 12 months. These include efficient management of costs and risks, increased sales and marketing, product diversification, digitization and increased use of technology.

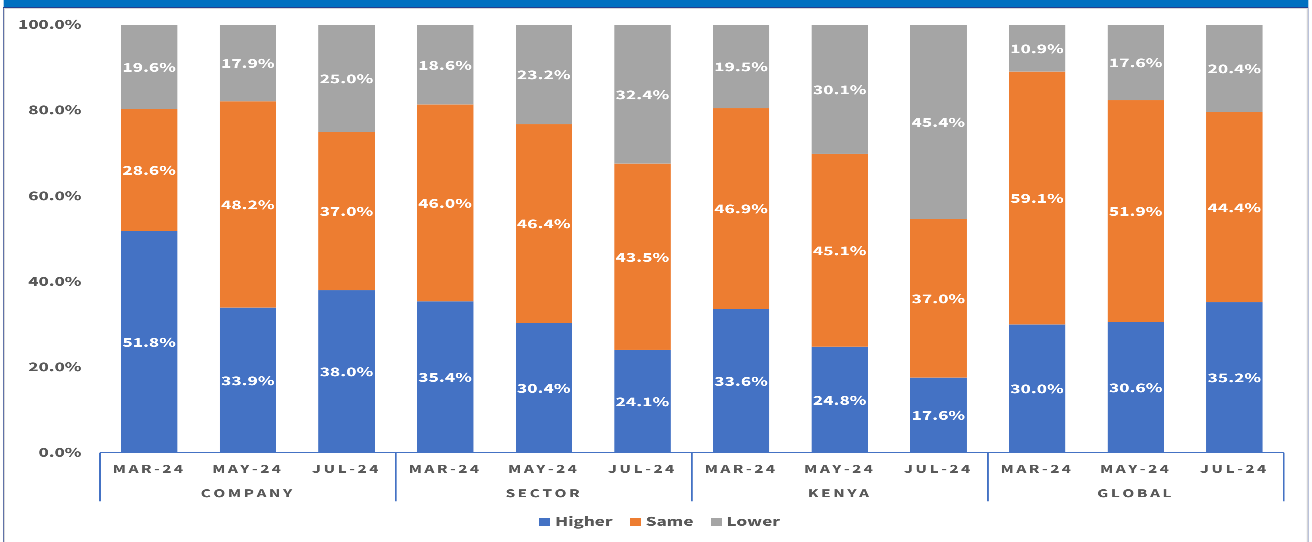
5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

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. The survey reports sustained business optimism for company and global growth prospects over the next 12 months. However, growth prospects for sector and the Kenyan economy are moderated over the next 12 months, due to recent protests and related disruptions **(Chart 1)**. Nevertheless, easing inflation, stability of the shilling, and good weather prospects will continue to support growth of the economy. Growth prospects for company are largely on account of company specific strategies to improve business performance, such as diversification of products and services portfolio, leveraging on technology and innovation, and increased sales and marketing.

Expectations on sector performance are driven by a variety of factors. The agriculture sector is expected to record improved performance, largely on account of good weather conditions. Tourism hotels, and restaurants are expected to record increased activity during the peak season running from July to October, 2024 and December to February, 2025. The education sector continues to benefit from increased demand for quality education, and expansion of activities as a result of growing adoption of digital learning. The financial sector continues to expand, leveraging on digitalization, innovations and product diversification anchored on customer centricity. However, borrower defaults pose a risk to the sector. The manufacturing sector activity is expected to be subdued, largely on account of elevated high cost of doing business and muted consumer demand.

The health sector continues to recover from the effects of the doctor's strike in 2024 Q2. The planned roll out of Social Health Insurance Fund (SHIF) is expected to open up opportunities. However,respondents indicated that the cost of compliance as the sector adopts the new program is expected to pose a challenge. Moreover, they expressed concerns that delayed disbursements and non-payment of claims by insurance funds, competition from imports and declining donor funding continues to constrain activity. ICT sector continues to record increased activity supported by the expanding digitalization of the economy. The transport sector is expected to recover from the slow down recorded in the last quarter due to disruptions occasioned by excess rains

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



and floods. The recovery is on account of expected increase in activity in other sectors with linkages to the transport sector. Activity in the real sector, building and construction is expected to remain low. However, the Government's affordable housing programme continues to boost performance of the sector.

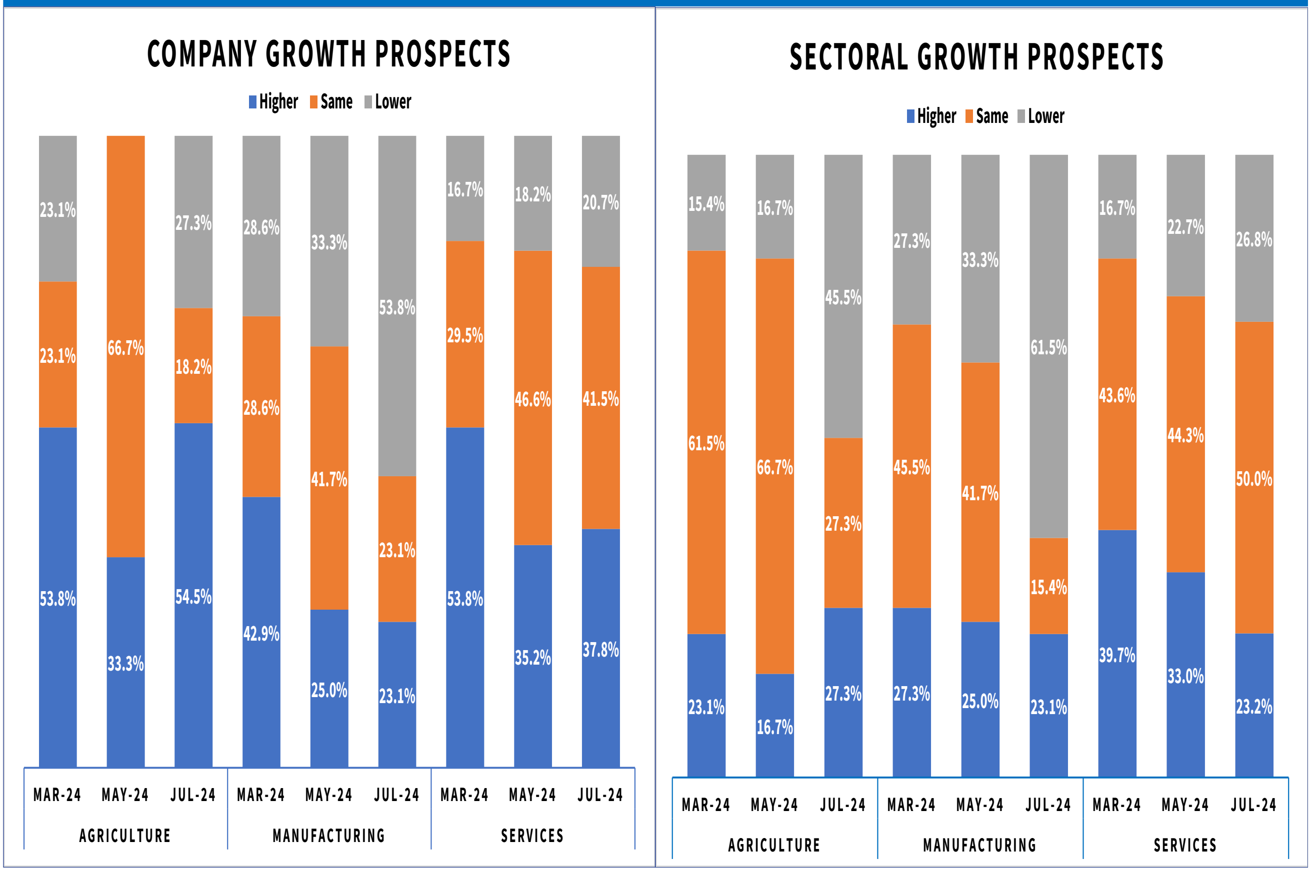
Global growth prospects remain largely unchanged from the previous survey. This is supported by easing global inflation, declining interest rates and political developments in major economies such as the UK, US and India. However, the increased geopolitical tensions pose a risk.

More respondents in the agriculture sector expect the sector in general to perform better in the next one year, compared to the proportion of respondents that expressed similar views in the last survey conducted in May. This is on account of favourable weather conditions that continue to support agricultural activities, and expectations that the good weather would prevail. Additionally, the respondents indicated that increased government support through policies aimed at enhancing growth, access to financing and subsidized fertilizer are key to expansion of the sector **(Chart 2)**.

Growth prospects for the manufacturing sector are moderated in the next 12 months, on account of elevated cost of doing business and subdued consumer demand. Liquidity challenges resulting from increased cost of borrowing and competition from imports continues to constrain business activity.

A larger proportion of players in the services sector expect business activity to either increase or remain largely unchanged over the next 12 months. Growth of the sector is largely supported by sector specific opportunities and seasonal factors in sectors such as tourism, finance, ICT, transport and storage, wholesale and trade, education, health, real sector and building and construction. Moreover, some sectors will continue to benefit from the good performance of the other sectors owing to their sectoral linkages.

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



6. BUSINESS ACTIVITY IN 2024 Q2 COMPARED TO 2024 Q1

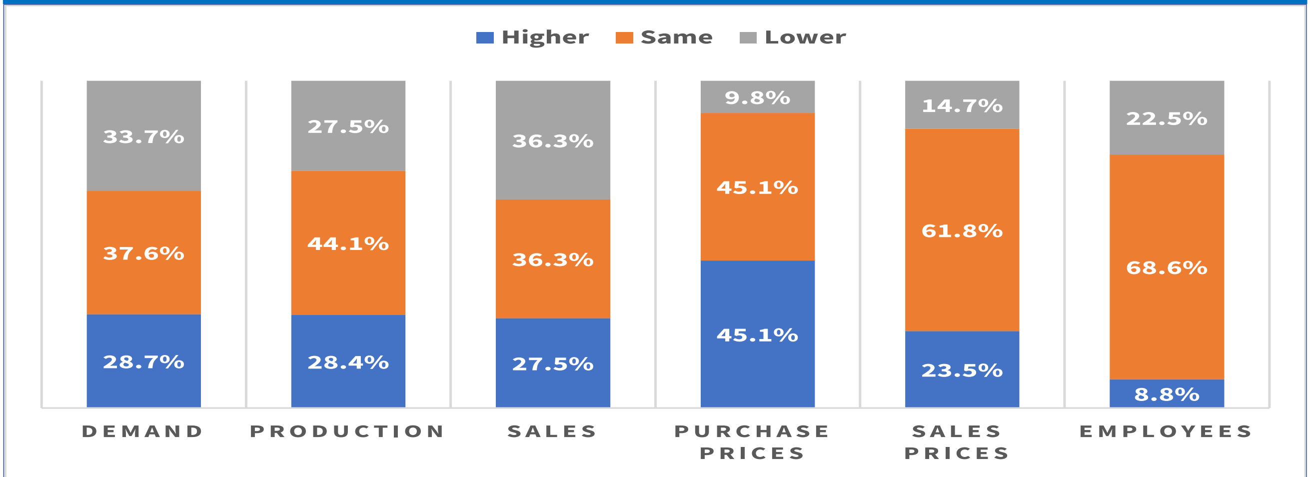
The Survey sought CEOs perceptions on business activity in the second quarter of 2024. Business activity remained largely unchanged in 2024 Q2 compared to 2024 Q1 **(Chart 3)**. Indicators of business activity remained relatively stable, as shown by the levels of demand orders, production volumes, sales prices, growth in sales, and the number of full-time employees. Though elevated, purchase prices were lower in 2024 Q2, largely on account of easing prices due to declined inflation levels, stability of the shilling, and lower global commodity prices.

More respondents in the agriculture sector reported higher demand orders, sales growth, production volumes during the quarter, supported by favorable weather conditions. However, input costs (purchase prices) were higher, indicative of the elevated cost of production for the sector.

A higher number of respondents in the manufacturing sector reported subdued business activity, as shown by lower levels of demand orders, production volumes and sales growth. This is largely on account of high cost of doing business, subdued consumer demand and increased competition from imports. However, more respondents reported lower or stable purchase prices.

In the services sectors, firms in the financial services, education and ICT reported increased activity supported by sector specific opportunities.

Chart 3: Business activity in 2024 Q2 compared to 2024 Q1 (percent of respondents)



Players in the services sector reported stability across all indicators of business activity, largely supported by opportunities in individual sectors, despite the challenges experienced in the 2024Q2 **(Chart 4, 5, 6 & 7)**.

Chart 4: Demand/Orders in 2024 Q2 relative to 2024 Q1 by sectors (percent of respondents)

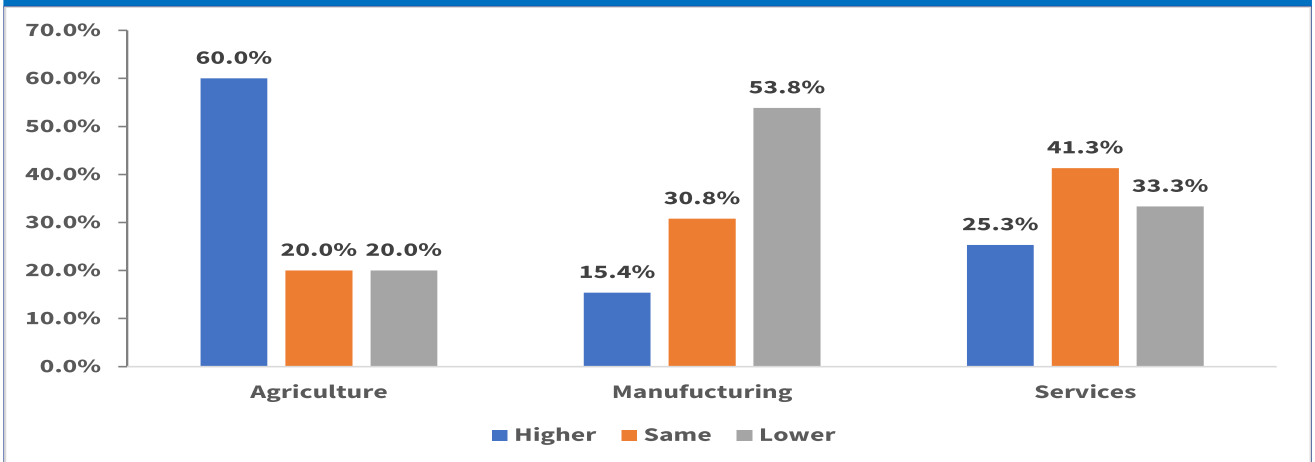


Chart 5: Sales growth in 2024 Q2 relative to 2024 Q1 by sectors (percent of respondents)

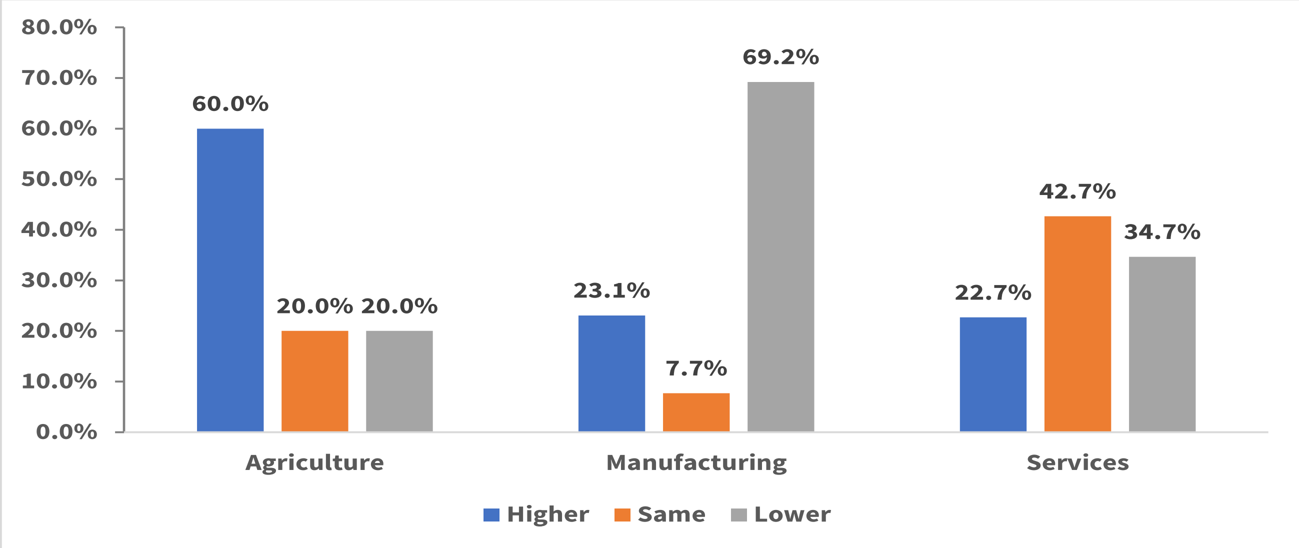


Chart 6: Purchase prices in 2024 Q2 compared to 2024 Q1 by sectors (percent of respondents)

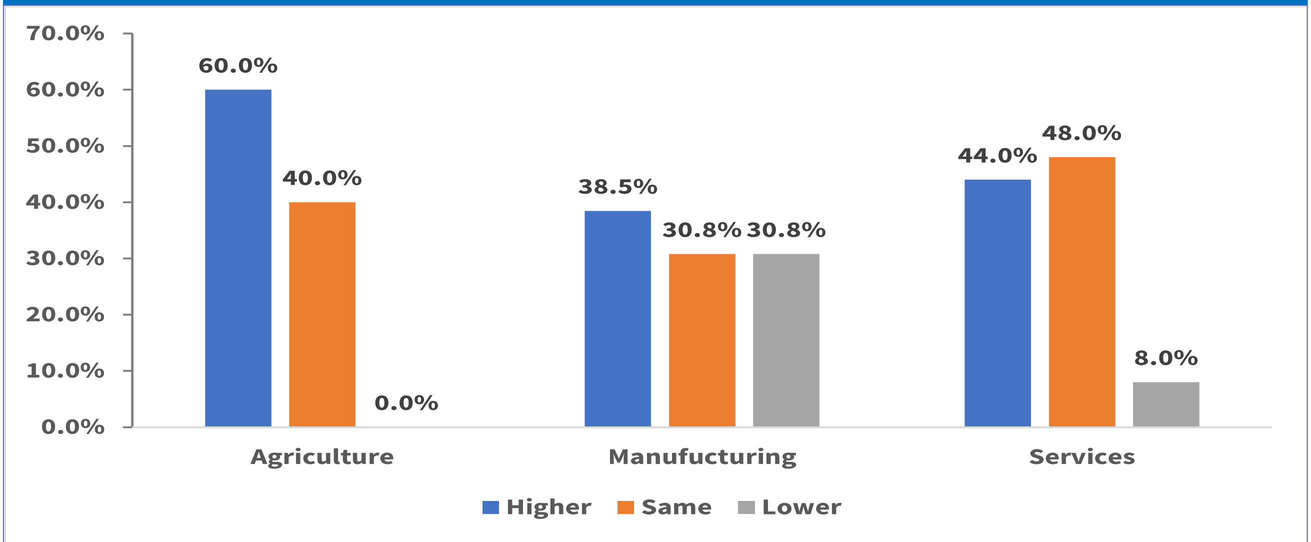
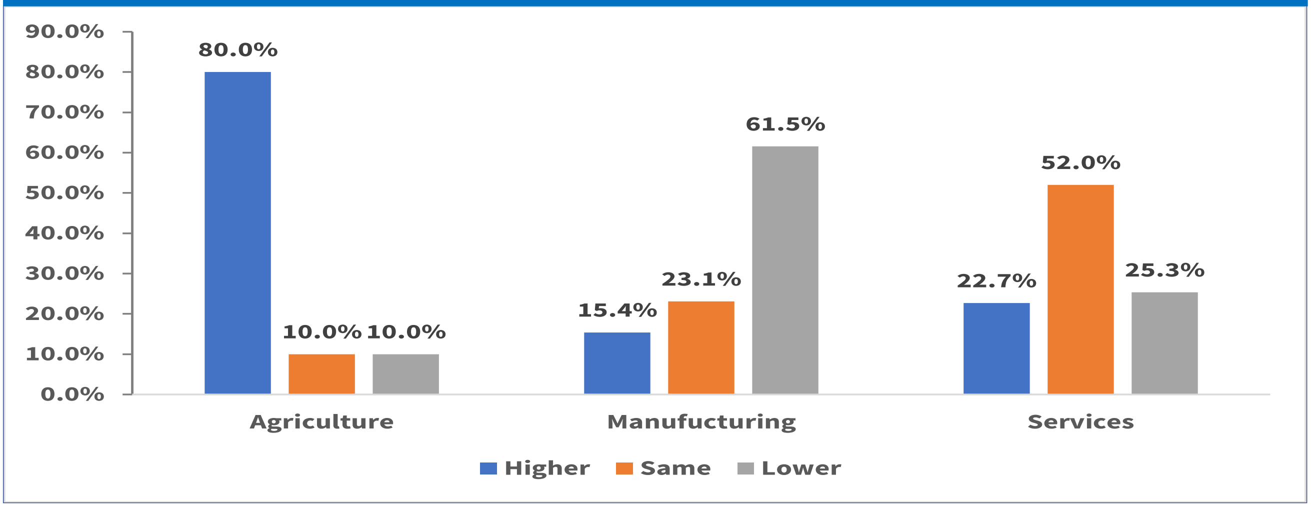


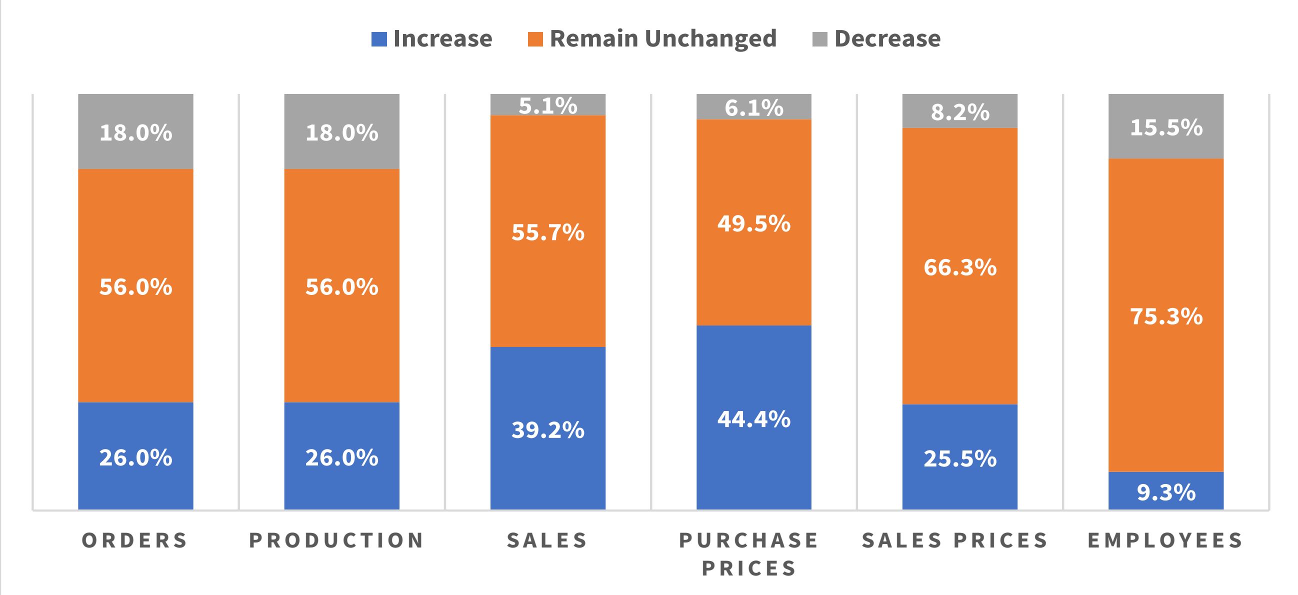
Chart 7: Production volumes in 2024 Q2 compared to 2024 Q1 by sectors (percent of respondents)



7. OUTLOOK FOR BUSINESS ACTIVITY IN 2024 Q3 COMPARED TO 2024 Q2

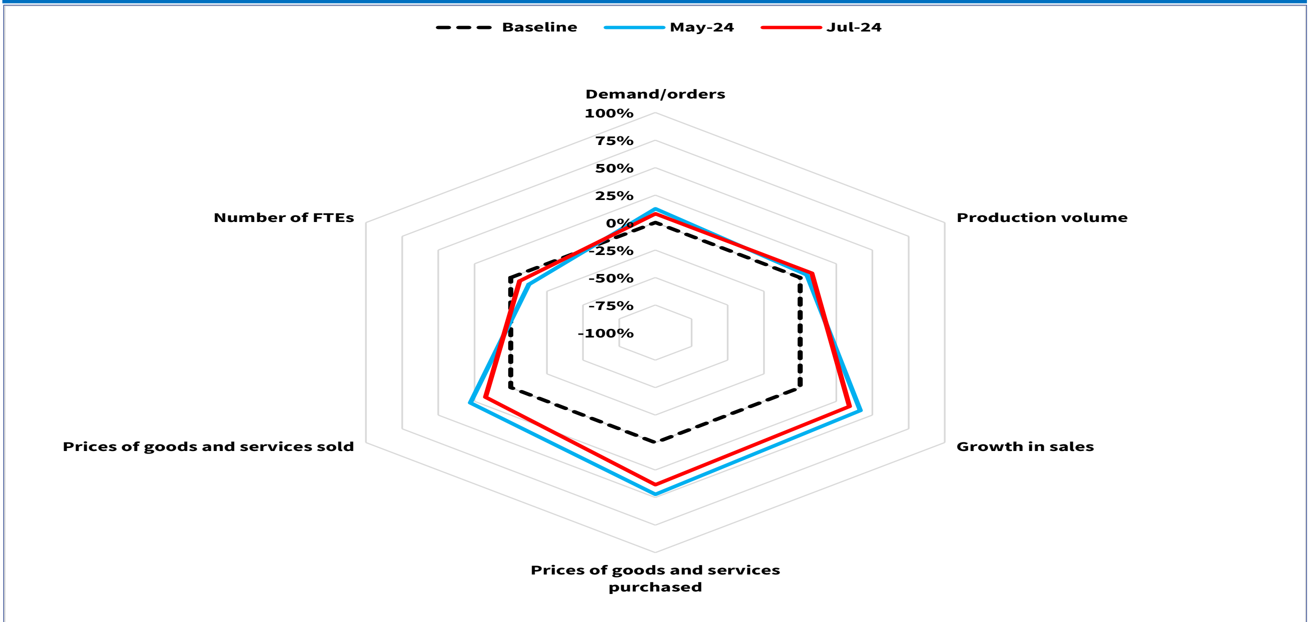
The Survey sought CEOs expectations of business activity in the third quarter of 2024 relative to the second quarter of 2024. More respondents expect business activity in 2024Q3 to remain relatively stable at the levels of 2024 Q2 **(Chart 8)**.

Chart 8: Outlook on business activity in 2024 Q3 compared to 2024 Q2 (percent of respondents)



More respondents expect business activity to remain largely unchanged from the levels reported in 2024Q2. Majority of firms have temporarily put on hold planned expansion of activities due to the uncertainties from the recent protests in the country. As a result, firms expect their operations to remain at the 2024Q2 levels. More respondents expect stability in production volume, demand orders and number of full-time employees. However, growth in sales, input costs and sales prices are expected to be marginally lower **(Chart 9)**.

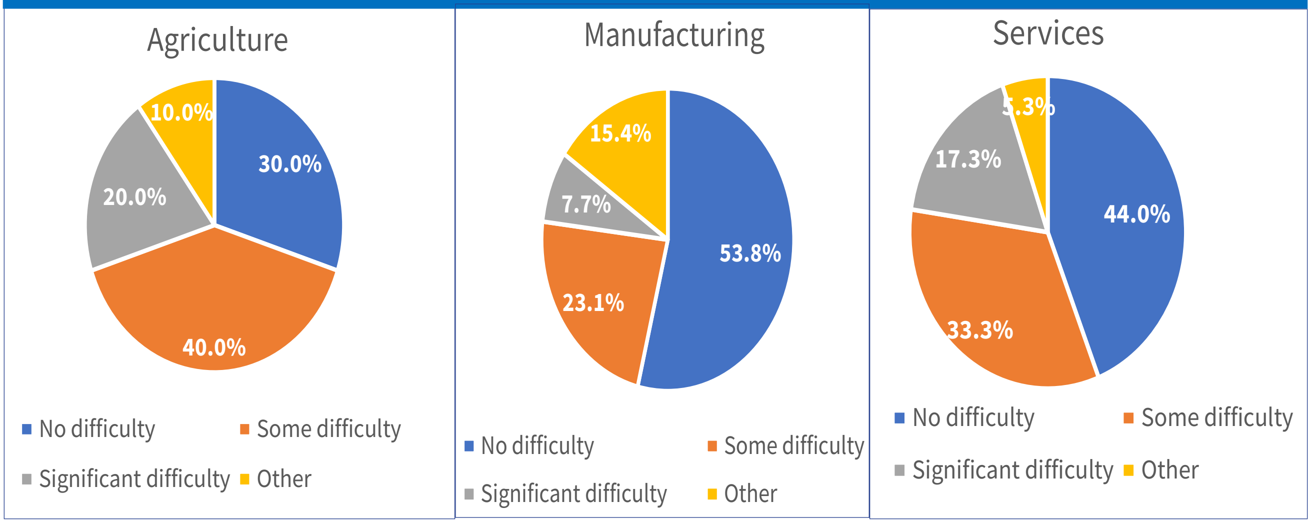
Chart 9: Expectations of business activity in 2024 Q3



More firms in the agriculture and services sectors reported increased constraints on capacity to expand production to meet any unexpected increase in demand orders or sales, with majority of them operating below capacity **(Chart 10)**. The constraints cited by firms include: liquidity shortages, for example in sectors such as health due to non/delayed payment of claims by insurance funds, reduced donor funding, high cost of credit and challenges accessing financing in the manufacturing sector; and budget constraints due to the high cost of doing business - any unexpected demand would require additional cashflow to facilitate production, lead time needed to increase capacity, and the current political climate and the effect it has in some sectors such as tourism, transport, and wholesale and retail trade.

However, the majority of firms in the manufacturing sector have been operating below capacity, and therefore able to meet an unexpected increase in demand. In this case, the demand would be met through utilization of stock/inventory buildup, use of existing idle capacity – infrastructure and workforce, and taking advantage of sector specific opportunities such as the good performance of the agriculture sector due to favorable weather conditions which has resulted in overproduction as well as investment in the tourism sector during the peak season which runs from July to October, and December to February.

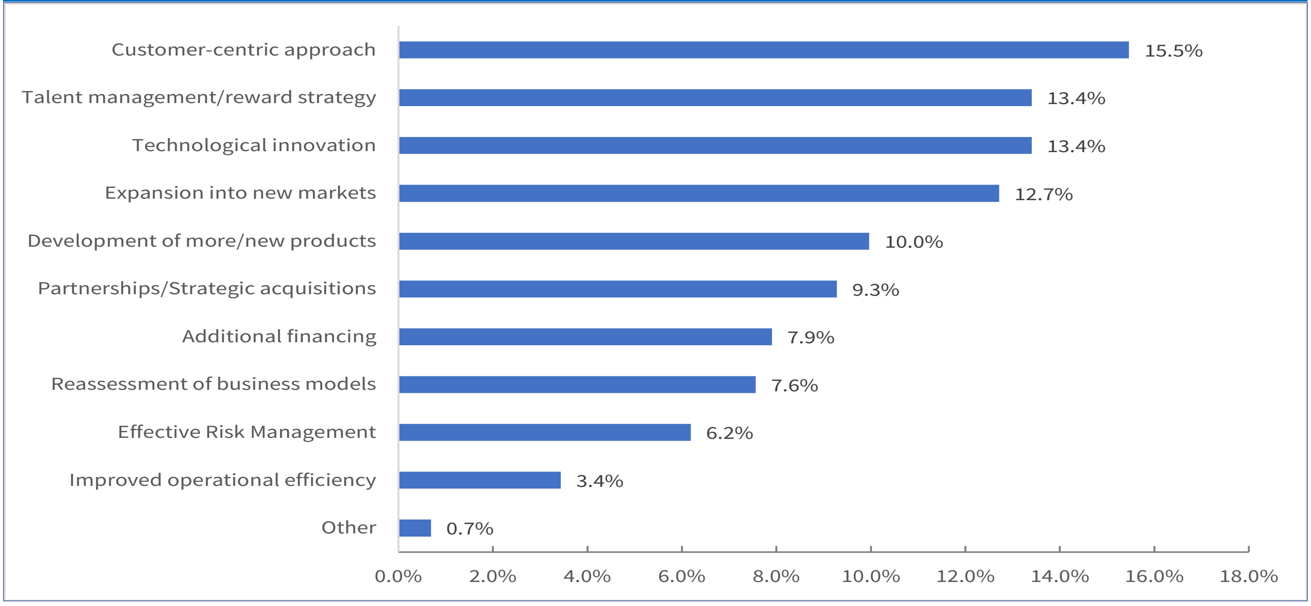
Chart 10: Potential level of difficulty in meeting increased demand (percent of respondents)



8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

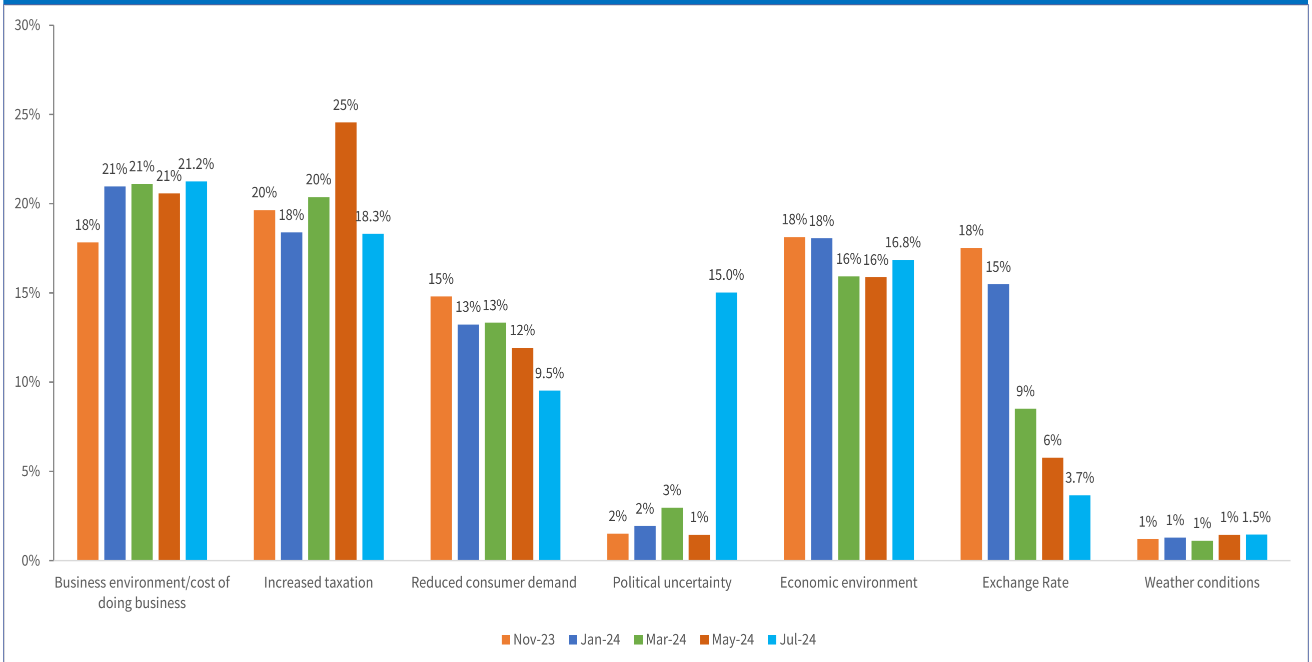
The Survey sought to establish the drivers of firm expansion and growth, domestic and external factors that could constrain their growth and/or expansion over the next one year and their mitigating factors. More firms reported customer centricity, talent management, and technological innovation as the key drivers of firms' growth over the next 12 months **(Chart 11)**.

Chart 11: Drivers of firm expansion (percent of respondents)



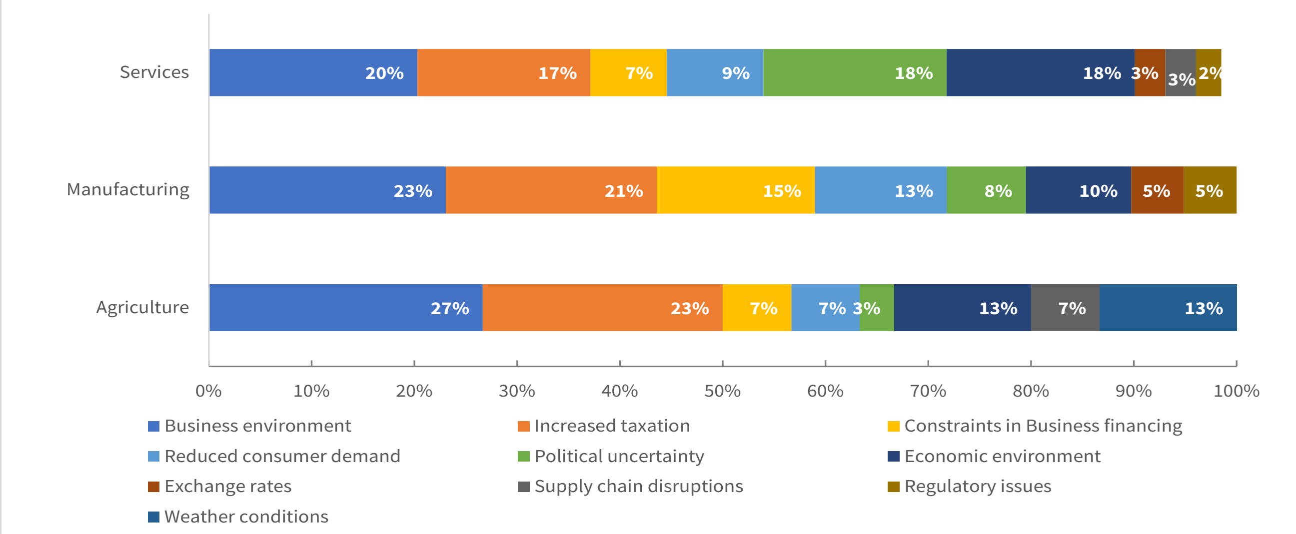
Concerns around taxation issues have declined. However, more respondents report the elevated cost of doing business, economic environment and recent protests (political environment) as key domestic factors that could constrain their growth **(Chart 12)**.

Chart 12: Domestics factors constraining firms' expansion (percent of respondents)



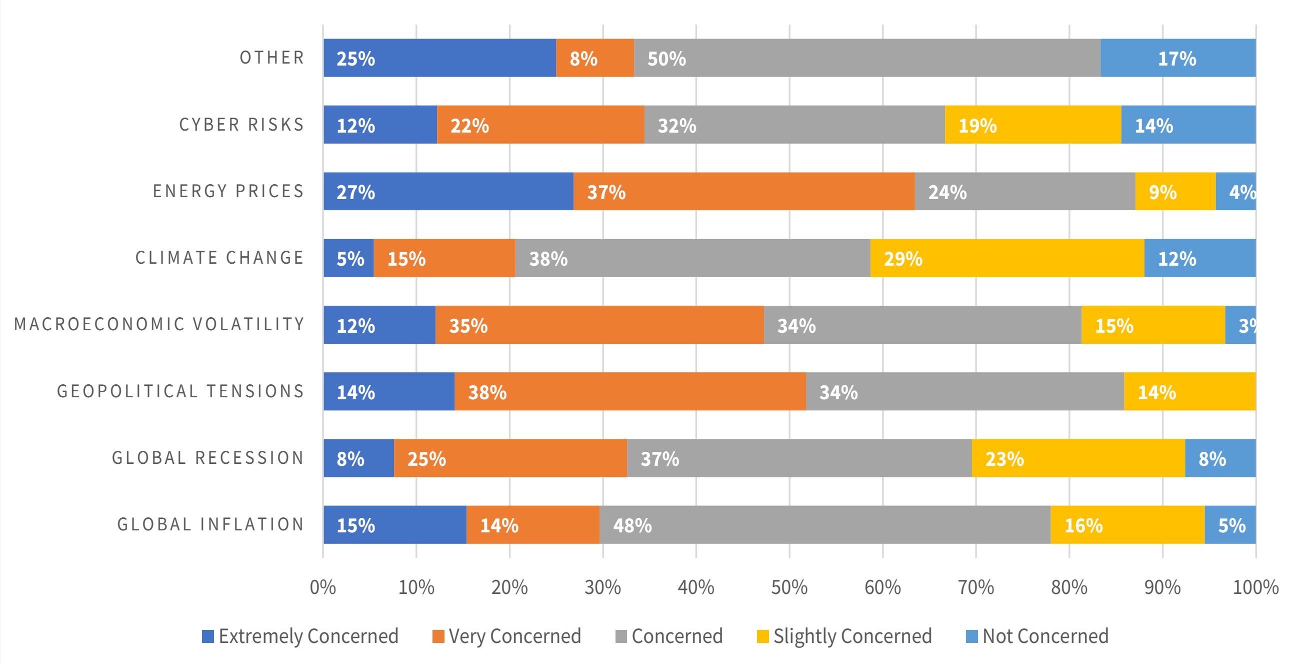
Key concerns such as taxation issues, business and economic environment, and constraints to financing are reflected across all sectors. In addition, political uncertainty (with recent protests) remains key for the services sector firms, while constrained consumer demand is key for the manufacturing sector firms. Meanwhile, firms in the agriculture sector were also concerned with weather changes **(Chart 13)**.

Chart 13: Domestic factors constraining firms' expansion by sectors (percent of respondents)



Regarding the major external (non-domestic) threats to business expansion growth, respondents reported concerns about geopolitical tensions and their impact on global supply chains, macroeconomic volatility and impact on global activity, and energy prices and their effect on cost of production **(Chart 14)**.

Chart 14: External threats impacting firms' expansion (percent of respondents)



Firms across all sectors will continue to efficiently manage their costs and risks, lobby with relevant stakeholders, increase digitization and adoption of technology, diversify their products and market their products more, with an aim of enhancing growth **(Chart 15 & 16)**.

Chart 15: Firms' proposed solutions to factors constraining growth (percent of respondents)

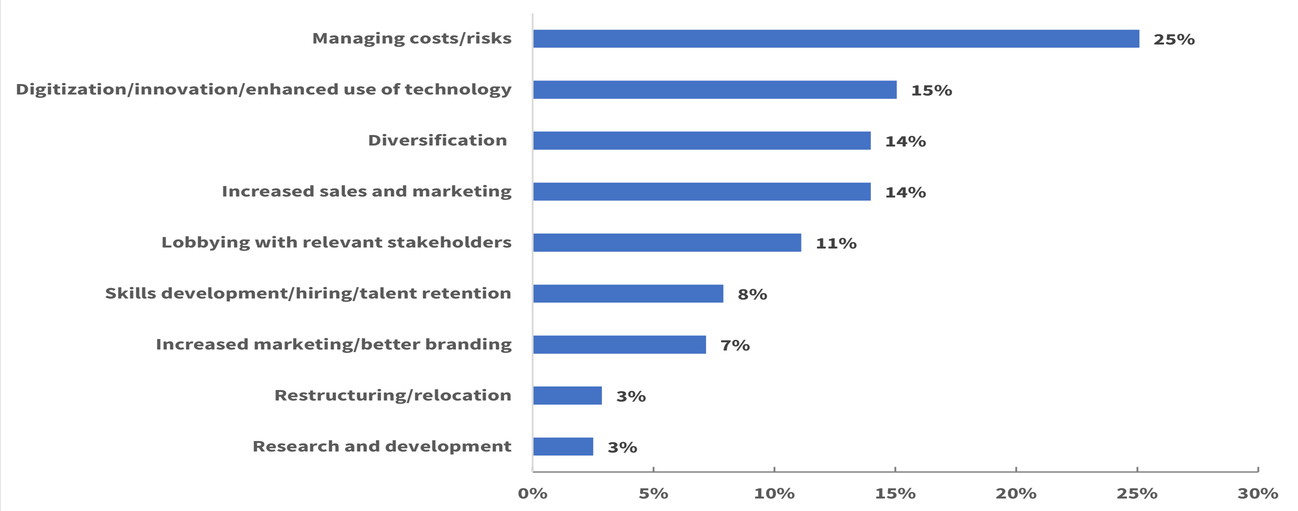
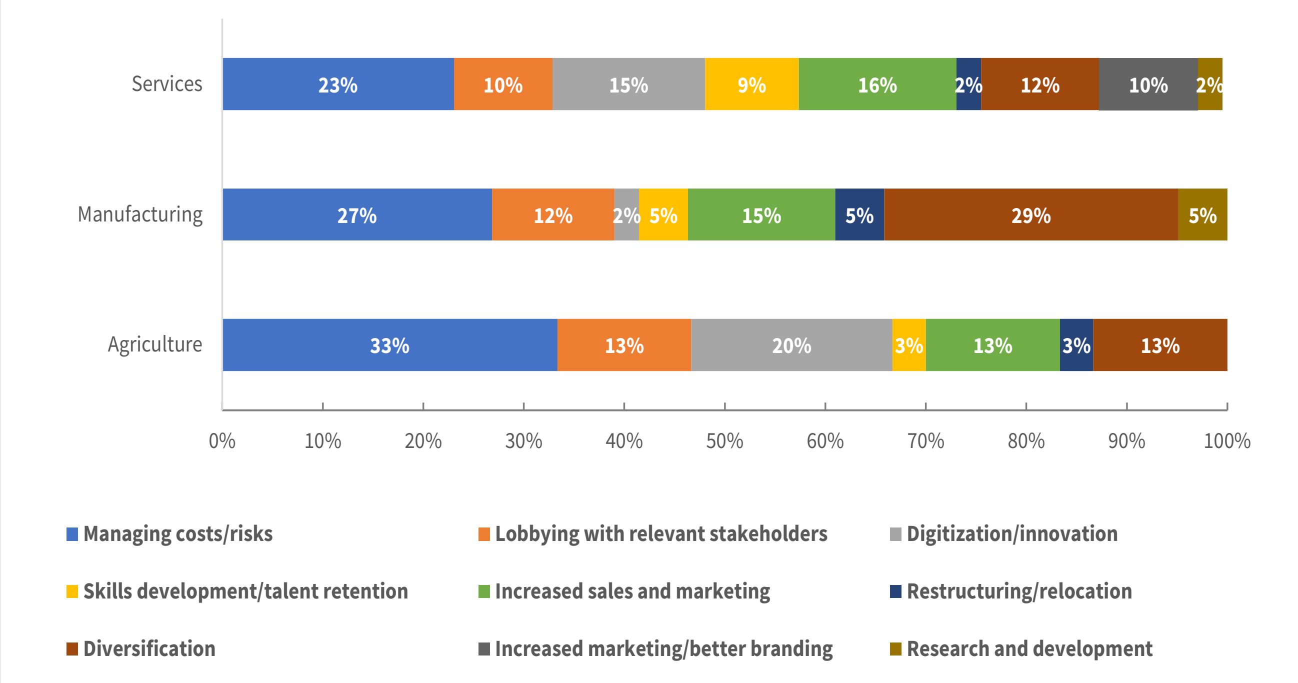


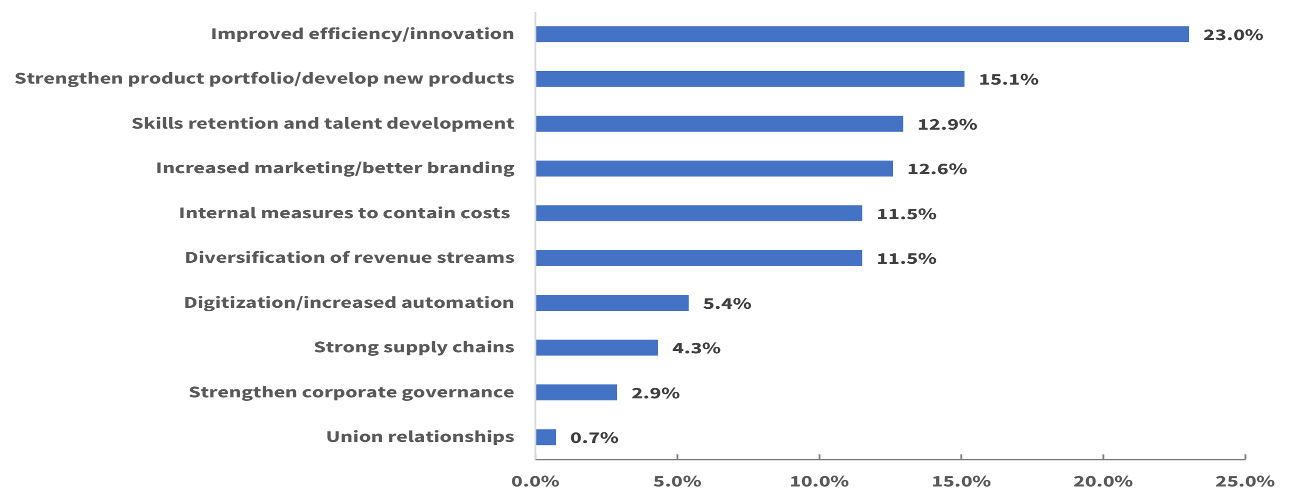
Chart 16: Firms' proposed solutions to factors constraining growth by sector (percent of respondents)



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. Respondents 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)



More firms reported stable economic environment, enabling business environment, taxation issues, political stability and stability of the Kenya shilling as external factors that could strengthen firms outlook over the next 12 months **(Chart 18 & 19)**.

Chart 18: External factors that could strengthen firms' outlook (percent of respondents)

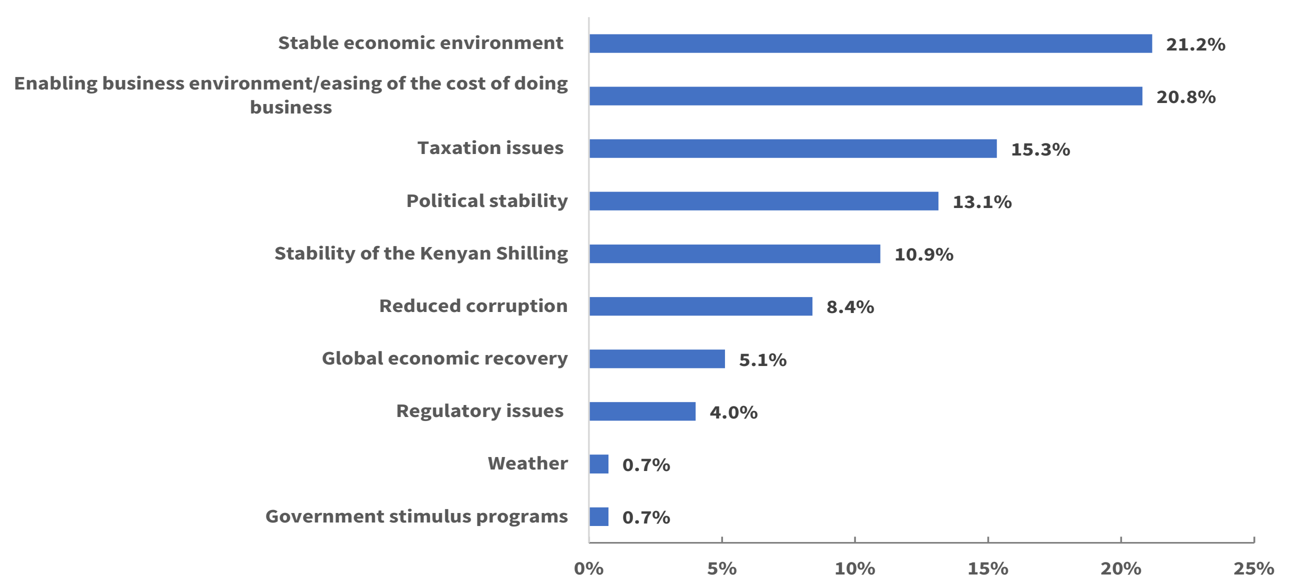
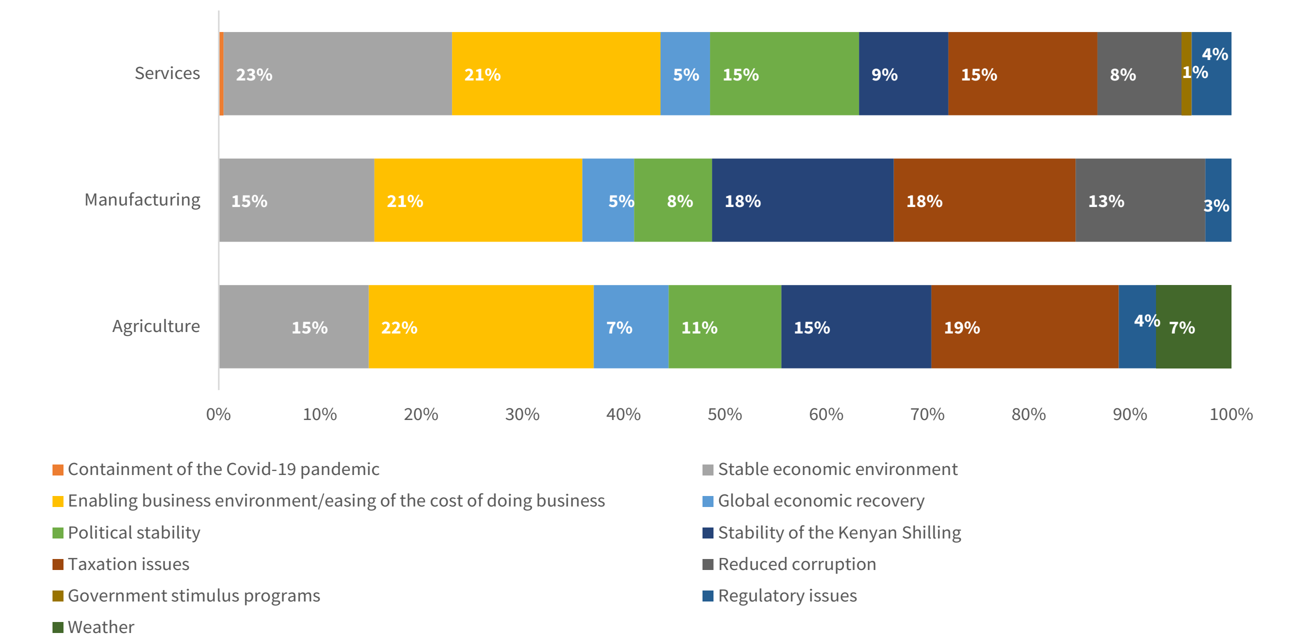


Chart 19: External Factors that could strengthen firms' outlook by sectors (percent of respondents)



10. TOP COMPANY STRENGTHS

More respondents across the sectors highlighted trusted brands/product quality, technical capabilities/skilled workforce, and customer centricity as well as long presence in the market as their top company's strengths **(Chart 20 & 21)**.

Chart 20: Firms' top strengths (percent of respondents)

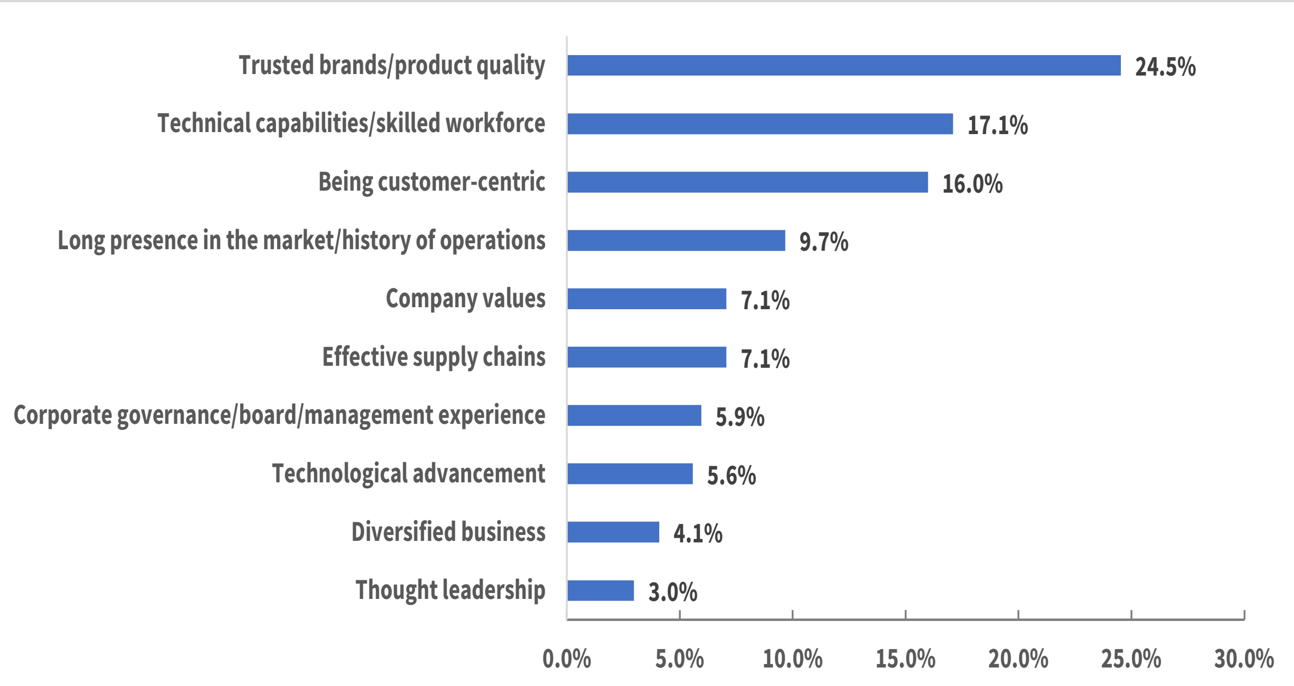
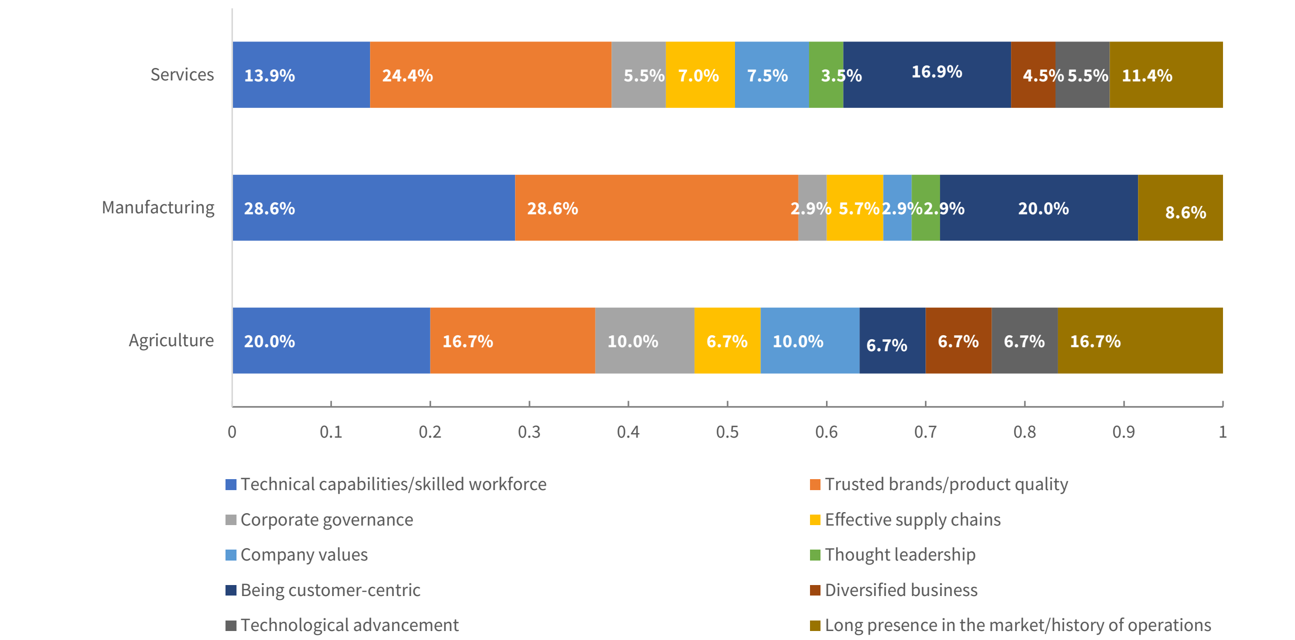


Chart 21: Firms' top strengths by sectors (percent of respondents)



11. STRATEGIC PRIORITIES

The Survey concluded by enquiring from respondents on their strategic priorities over the next three years. More respondents reported diversifying operations, growing their businesses sustainably, improving efficiency and optimizing on costs as key strategic priorities **(Chart 22 &23)**.

Chart 22: Firms' strategic priorities over the next three years (percent of respondents)

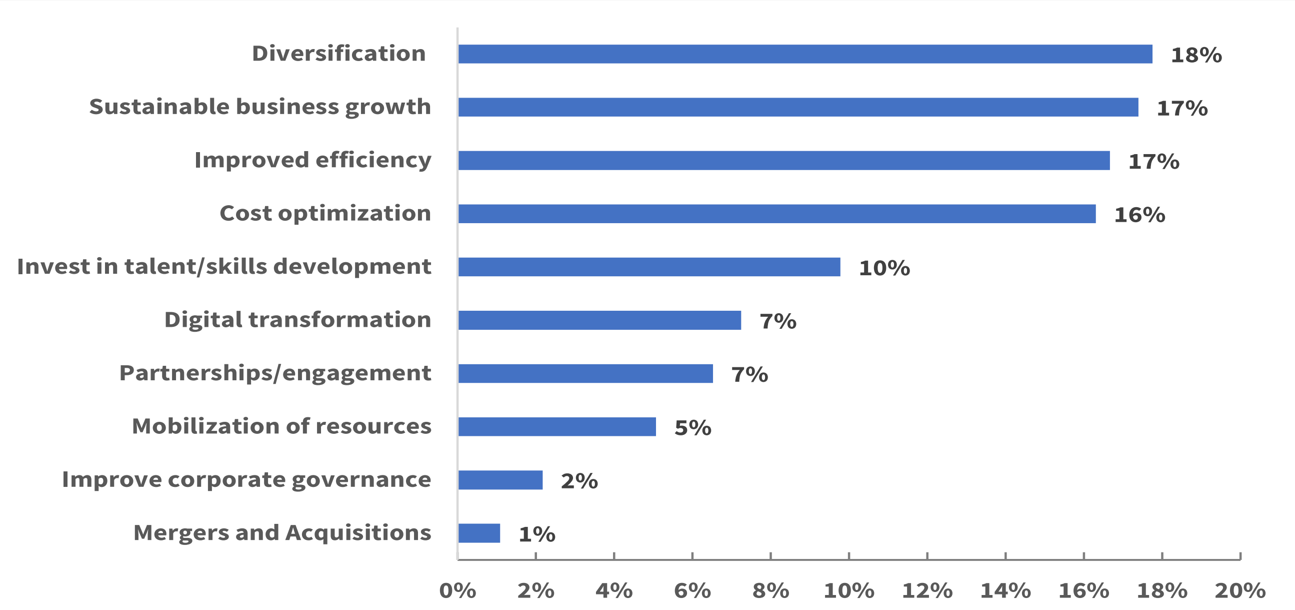
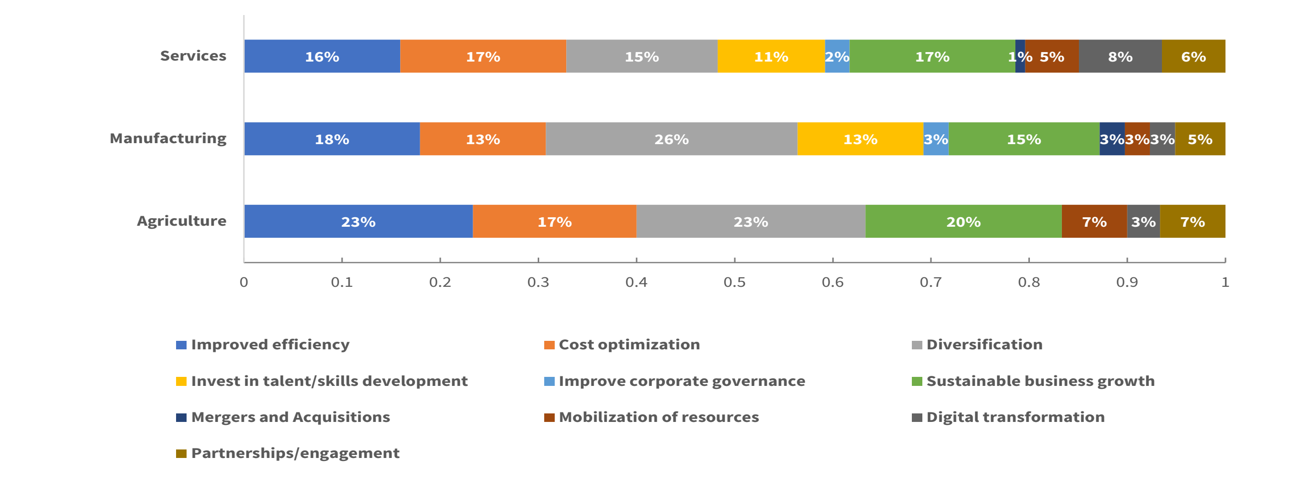


Chart 23: Firms' strategic priorities over the next three years by sector (percent of respondents)



12. CONCLUSION

The July 2024 CEOs Survey showed sustained optimism for company and global growth prospects. The reported company prospects are attributed to targeted strategies to enhance business activity, while global growth prospects are anchored on easing global inflation and expectations of further interest rates cuts. Business optimism for sector and Kenyan economic growth prospects was moderated, mainly on account of uncertainty around protests and their consequent disruptions to business activity.

Business activity remained relatively stable in 2024Q1 and 2024Q2. This stability is expected to prevail in 2024Q3. Performance of sectors such as health, finance, ICT, education, tourism, agriculture, education, transport and storage is expected to remain steady, supported by sector specific opportunities and seasonality, despite the risks.

Concerns around taxation are lower, following withdrawal of the Finance Bill 2024. The elevated cost of doing business and the uncertainty around protests are some of the key domestic factors that could constrain firms' growth in the next 12 months. However, easing inflation, stability of the shilling, and good weather prospects continue to support growth. Moreover, firm specific strategies such as customer centricity, talent management, and technological innovations are expected to boost performance.
Firms have employed several strategies such as efficient management of costs and risks, increased sales and marketing, product diversification, digitization and increased use of technology to mitigate their constraining factors to growth in the next 12 months. However, concerns around external (non-domestic) threats to growth such as geopolitical tensions, macroeconomic volatility and energy prices remain.

13. RECOMMENDATIONS ON HOW THE BUSINESS ENVIRONMENT CAN BE IMPROVED

The respondents gave recommendations highlighted below on how the business environment in Kenya can be improved to enhance performance of firms.

i. The government should consider extending support to some sectors through stimulus programs. For example, players in the tourism and hotel industry can benefit from programs channelled through the Kenya Tourism Board; support to manufacturers can be through policies that reduce their cost of production such as lowering input costs, to allow for competitiveness.
ii. Exploring alternate ways to promote growth and enhance revenue collections.
iii. Hasten payment of pending bills to avail liquidity to businesses to facilitate operations.
iv. Provide a conducive business environment to investors by lowering the cost of credit to enhance access to financing, stabilization of

the tax regime, and enhanced governance to ensure efficiency in policy implementation and resources allocation.

v. Harmonization of regulations across counties to avoid multiplicity of policies. For instance, some players such as those in hotel industry and tourism sector are exposed to overlapping policies implemented by both national and county governments simultaneously, and which have financial implications, and are constraining.

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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