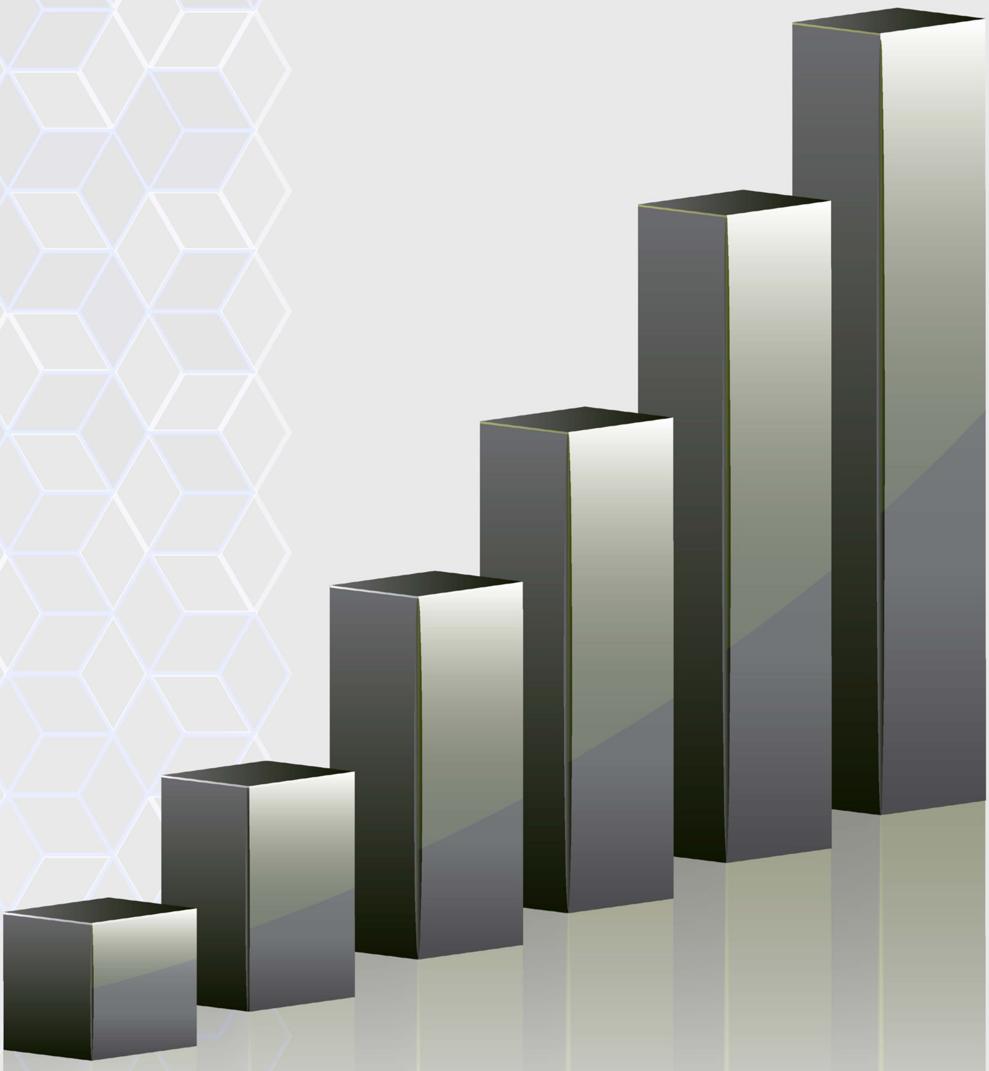
Central Bank of Kenya

Chief Executive Officers'(CEOs) Survey

SEPTEMBER 2024



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1. BACKGROUND

The Central Bank of Kenya (CBK) Chief Executive Officers' (CEOs) Survey complements the other surveys (Market Perceptions Survey and Agriculture Sector Survey) conducted every two months prior to the Monetary Policy Committee (MPC) meetings. The objective of the Survey is to capture information on top firms' perceptions, expectations, and issues of concern. The Survey 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 September 9 and 20, 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 three (Q3) compared to 2024 quarter two (Q2), and their expectations for economic activity in the fourth quarter of 2024 (Q4). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (September 2024 – August 2025), as well as the strategic directions and solutions to address their key constraining factors over the medium term (September 2024 – August 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), manufacturing (13 percent), professional services (11 percent), agriculture (11 percent), healthcare and pharmaceuticals (9 percent), financial services (9 percent), ICT and telecommunications (8 percent), transport and storage (4 percent), education (3 percent), real estate (3 percent), and wholesale and retail trade (3 percent). Other sectors such as building and construction, mining and energy, security and media accounted for one percent each or less. Other sectors not specified accounted for 9 percent of the respondents.

Majority of the respondents (67 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses (16 percent), government owned entities (5 percent), publicly listed foreign companies (3 percent), publicly listed domestic companies (2 percent) and other ownership structure (7 percent). Forty six percent of the respondents had a turnover of over Ksh 1 billion in 2023. In terms of employment, 38 percent of respondents employed less than 100 employees, while 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 :

- The respondents reported that there was improved optimism for Kenyan economic growth prospects over the next 12 months, driven by stability of the macroeconomic environment (lower inflation, stability of the shilling), good weather prospects, company specific growth strategies and sector specific opportunities.
- Sustained optimism for company and sectoral growth prospects over the next 12 months survey was reported. The company growth prospects are supported by specific strategies employed to stimulate growth, while sectoral growth prospects

are driven by sector specific growth strategies, opportunities, and seasonality factors.

- Respondents reported sustained optimism for global growth prospects, largely on account of declining global inflation, interest rates cuts in major economies and expected conclusion of elections in major advanced economies. However, increasing geopolitical tensions continue to pose a threat.
- Business activity in Q3 2024 was lower compared to Q2 2024, largely on account of disruptions arising from political disturbances.
- Business activity in Q4 2024 is expected to improve on account of seasonal factors and recovery from the effects of the political distractions experienced in the previous quarter.
- Cost of doing business and credit, reduced consumer demand, and political interruptions are key domestic factors constraining firms' growth in the next 12 months. However, firms will employ strategies such as managing costs and risks, diversification of operations, and lobbying with relevant stakeholders in order to mitigate their constraining factors.

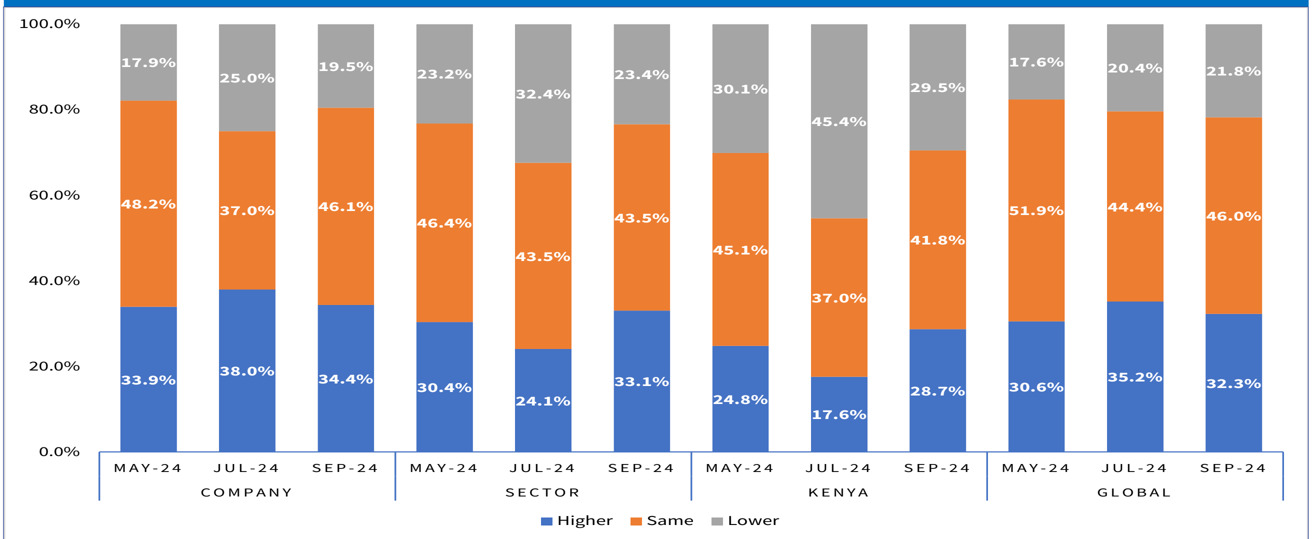
5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

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 improved optimism for the Kenyan economy, driven by stability of the macroeconomic environment (lower inflation, stability of the shilling), good weather prospects, company specific growth strategies and sector specific opportunities **(Chart 1)**. However, cost of doing business - high production and operational cost, political disturbances, and liquidity constraints arising from high cost of credit and subdued consumer demand resulting from lower disposable income continue to pose a threat to the prospects.

The survey showed sustained company growth prospects supported by specific strategies employed to stimulate growth, such as internal measures to contain costs, strengthening of product portfolio through development of new products and diversification of revenue streams, albeit with challenges such as access to financing and subdued consumer demand. Sectoral growth prospects are largely driven by sector specific growth strategies, opportunities, and seasonality factors **(Chart 2)**. The tourism sector is expected to continue with its recovery trajectory, with growth in the next 12 months largely driven by seasonality factors such as increased activity during the peak season which runs until February 2025, and the festive season. However, sector players reported elevated levies and taxes as a major factor constraining the sector performance.

The agriculture sector is expected to perform better, largely on account of good weather prospects. Players in the sector reported increased demand, especially in export markets. However, limited access to financing to facilitate activity and supply chain challenges are constraining factors. Moreover, sector players reported excessive regulation by the national and county governments, which has a potential of hindering activity. Growth prospects for the health

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



sector remain positive, with the roll out of the new Social Health Insurance Fund (SHIF) expected to offer opportunities to players in the sector. The ICT sector continues to benefit from the continued digitalization of the economy. The education sector growth prospects continue to improve, driven by increased demand for quality educational products, and increased digitalization of the sector. However, labour unrests in the sector and students strikes could undermine the good prospects.

The transport sector is expected to benefit from the increased travel and movements associated with the festive season. Growth in the finance sector is driven by increased demand for financial services, as well as targeted innovations centred on customer needs. However, loan defaults within the sector pose a threat. Subdued demand continues to impact on the performance of the wholesale and retail sector, with sector players extending price discounts to retain their customers. The manufacturing sector performance remains moderated, largely driven by the high cost of doing business, liquidity constraints, subdued demand and competition from imports and within the region. However, the sector is expected to benefit from the recent trade agreements within the region that promote exports.

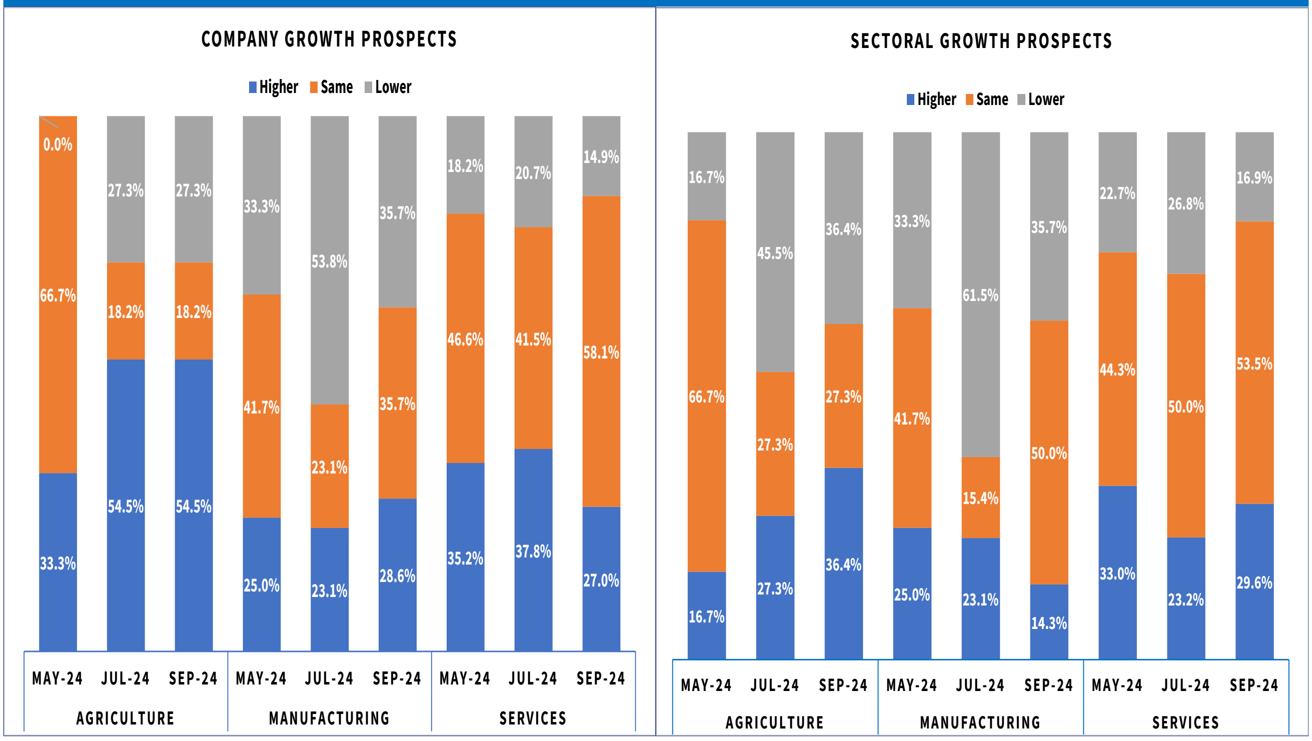
Sustained optimism for global growth prospects is largely attributed to lower global inflation, interest rates cut in major economies and expected conclusion of elections in major advanced economies. However, increasing geopolitical tensions continue to pose a threat.

A higher percentage of respondents in the agriculture sector expect their company and sector to record better performance in the next 12 months. This is largely on account of good weather prospects, which is expected to boost production. Moreover, players in the agriculture export market reported increased demand for their products, which is expected to further boost activity. However, there are concerns associated with difficulties in access to finance required to support activity, limited air freight capacity as well as supply chain disruptions which affect agricultural goods transported via sea with implications on quality as the produce is perishable **(Chart 2)**.

Growth prospects for the manufacturing sector remain moderated in the next 12 months largely due to the high cost of doing business, liquidity constraints due to the high cost of borrowing, and subdued consumer demand due to lower disposable incomes. Additionally, the sector continues to face stiff competition from imports due to reduced competitiveness.

More players in the services sector expect stability in business activities in the next 12 months, driven by sector specific opportunities and seasonal factors in sectors such as tourism, finance, ICT, transport and storage, wholesale and trade, education and health.

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



6. BUSINESS ACTIVITY IN 2024 Q3 COMPARED TO 2024 Q2

The Survey sought CEOs perceptions on business activity in the third quarter of 2024. Business activity was slightly lower in 2024 Q3 compared to 2024 Q2 on account of the political disruptions in the country during the quarter **(Chart 3)**. Notably, production volume was lower, owing to inventory buildup due to subdued consumer demand, while prices of goods and services sold were partly reflective of price discounts extended by firms in order to retain their customer base.

A higher proportion of respondents in the agriculture sector reported improved business activity in 2024 Q3, as reflected in increased demand orders and sales growth. Production volume and number of full-time employees were reported to be stable, while purchase prices remained elevated, in line with the increased input costs for the sector during the quarter.

More respondents in the manufacturing sector recorded subdued business activity. This is reflected in lower levels of demands orders, sales growth, and production volume. However, the number of full-time employees was largely unchanged, intimating the appropriateness of the staffing levels relative to the level of business activity. Purchase prices (input costs) were stable or lower during the quarter, in line with developments in the domestic and global prices.

Indicators of business activity in the services sector showed stability except for purchase prices (input costs), which was reported to be higher **(Chart 4 to 9)**. The business performance is indicative of the benefits arising from sector specific growth strategies and opportunities.

Chart 3: Business activity in 2024 Q3 compared to 2024 Q2 (percent of respondents)

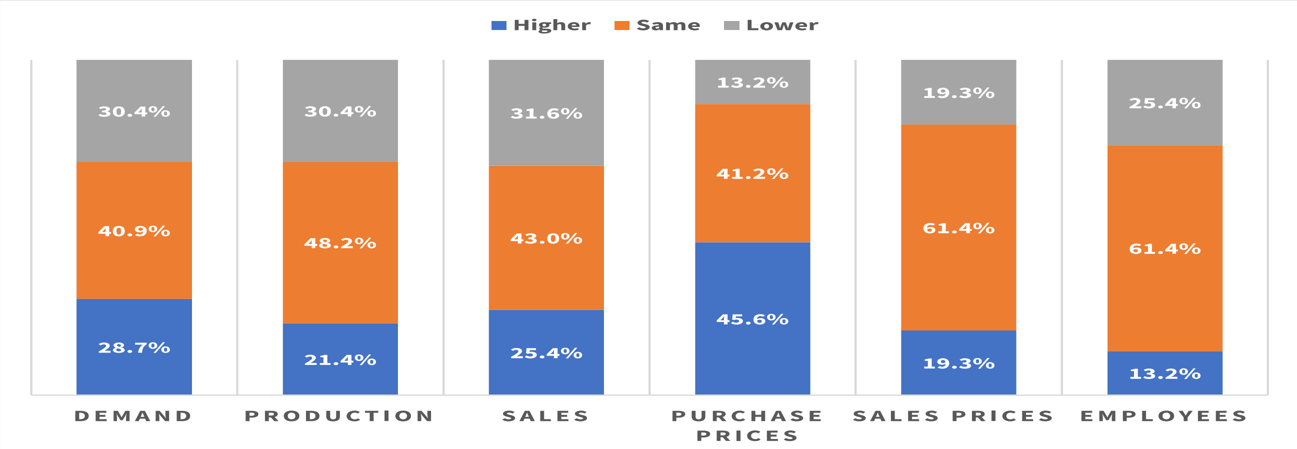


Chart 4: Business activity in 2024 Q3 compared to 2024 Q2 (percent of respondents)

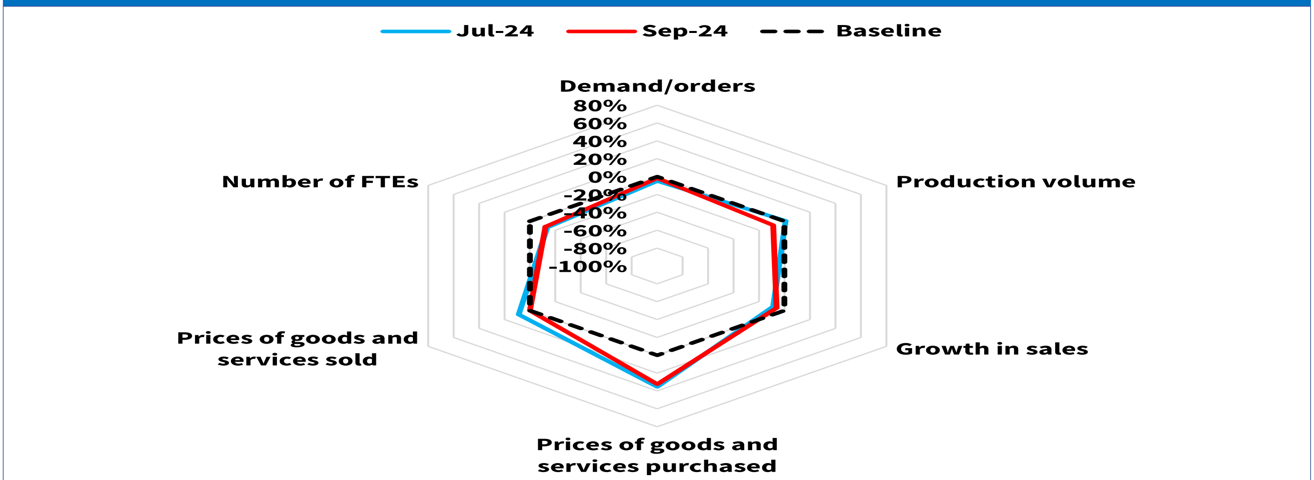


Chart 5: Demand/Orders in 2024 Q3 relative to 2024 Q2 by sectors (percent of respondents)

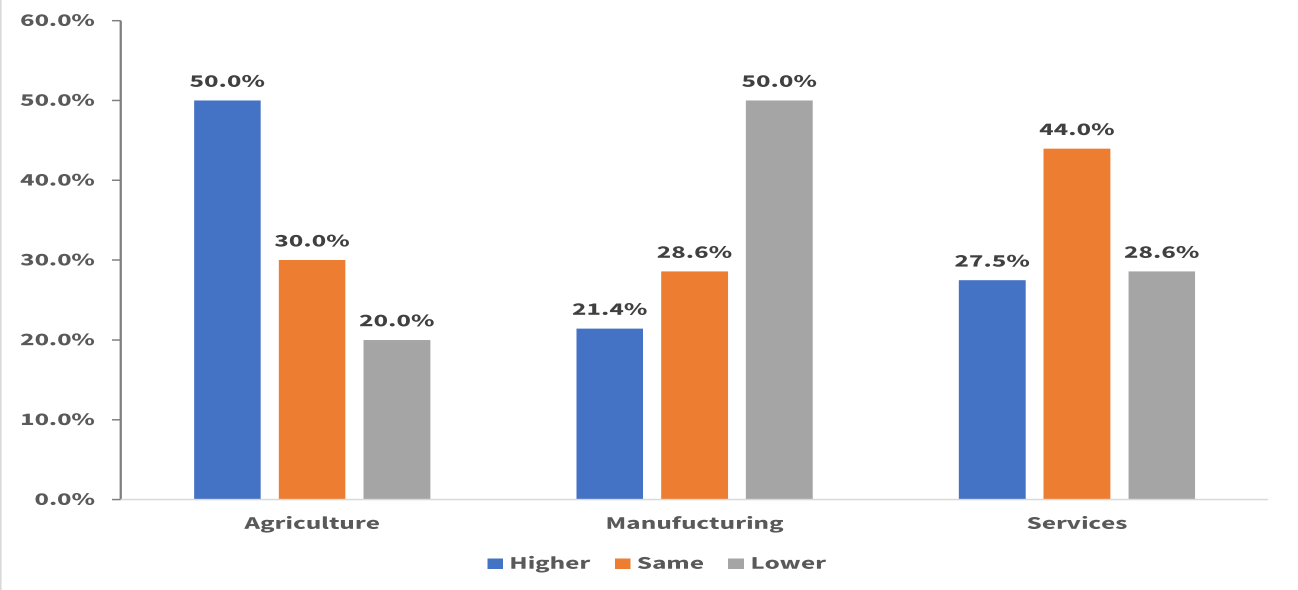


Chart 6: Sales growth in 2024 Q3 relative to 2024 Q2 by sectors (percent of respondents)

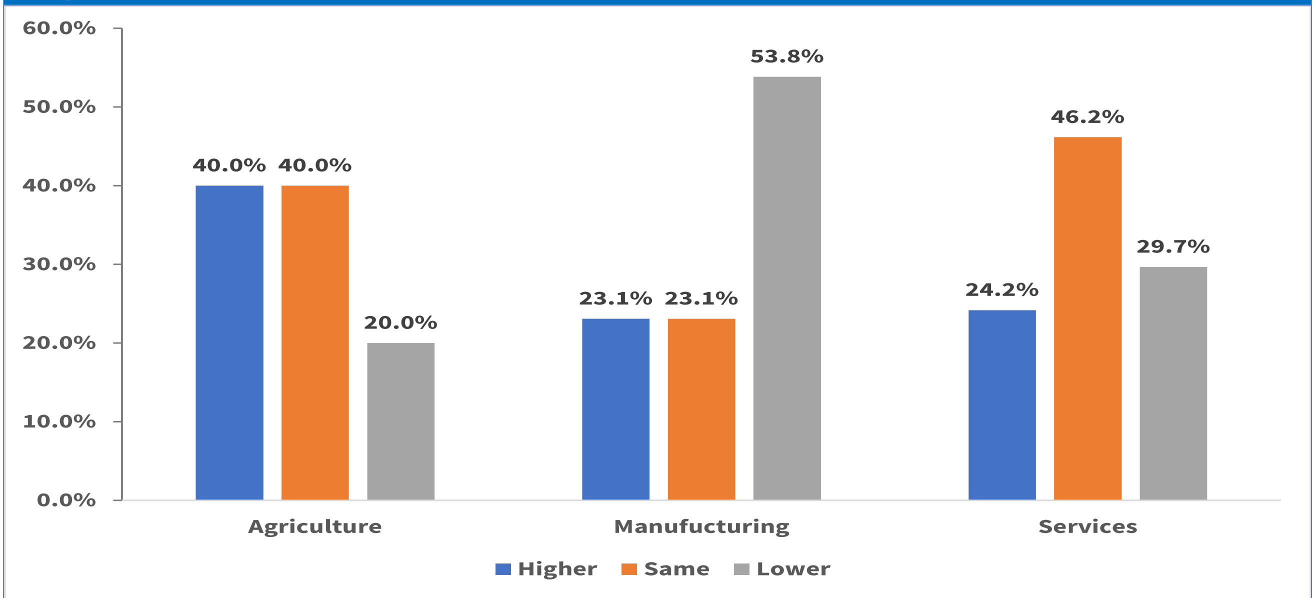


Chart 7: Purchase prices in 2024 Q3 compared to 2024 Q2 by sectors (percent of respondents)

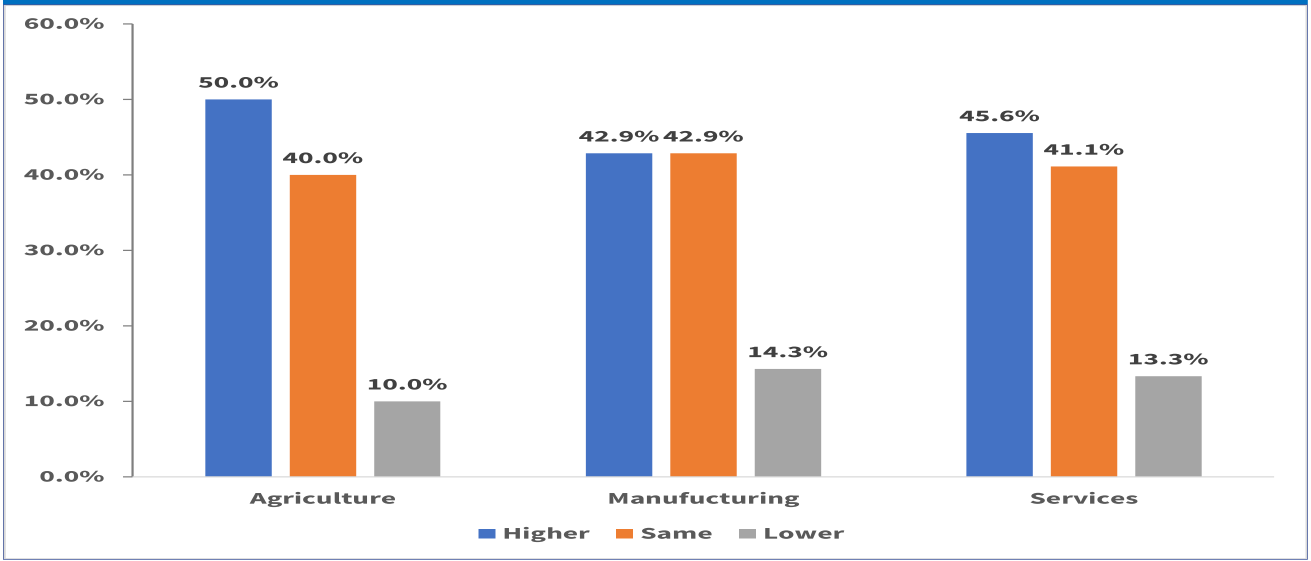


Chart 8: Production volumes in 2024 Q3 compared to 2024 Q2 by sectors (percent of respondents)

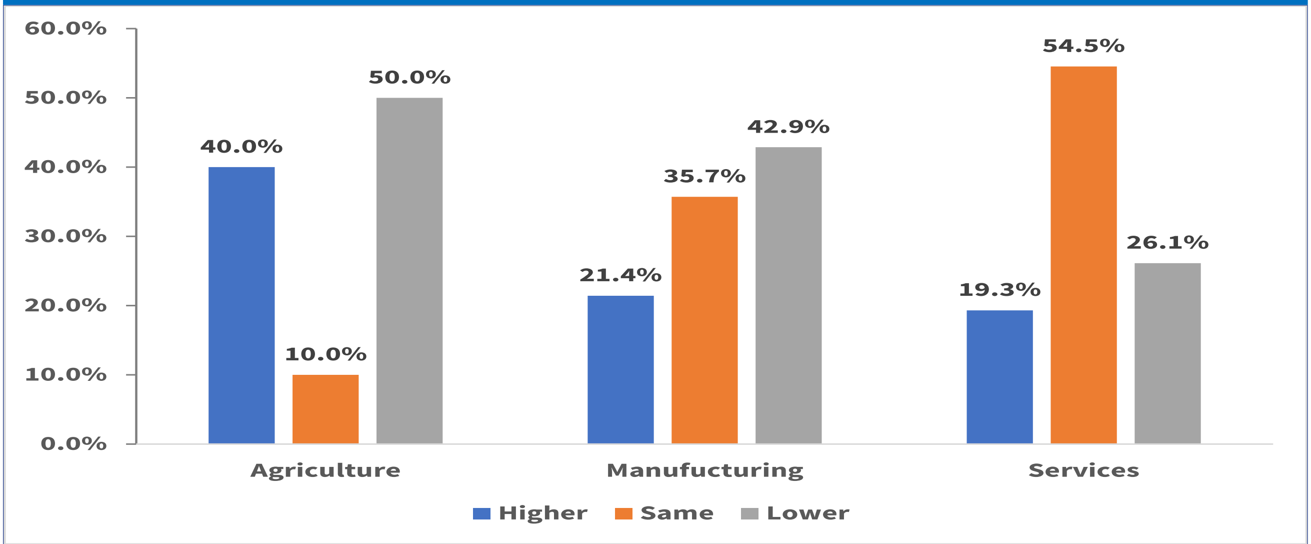
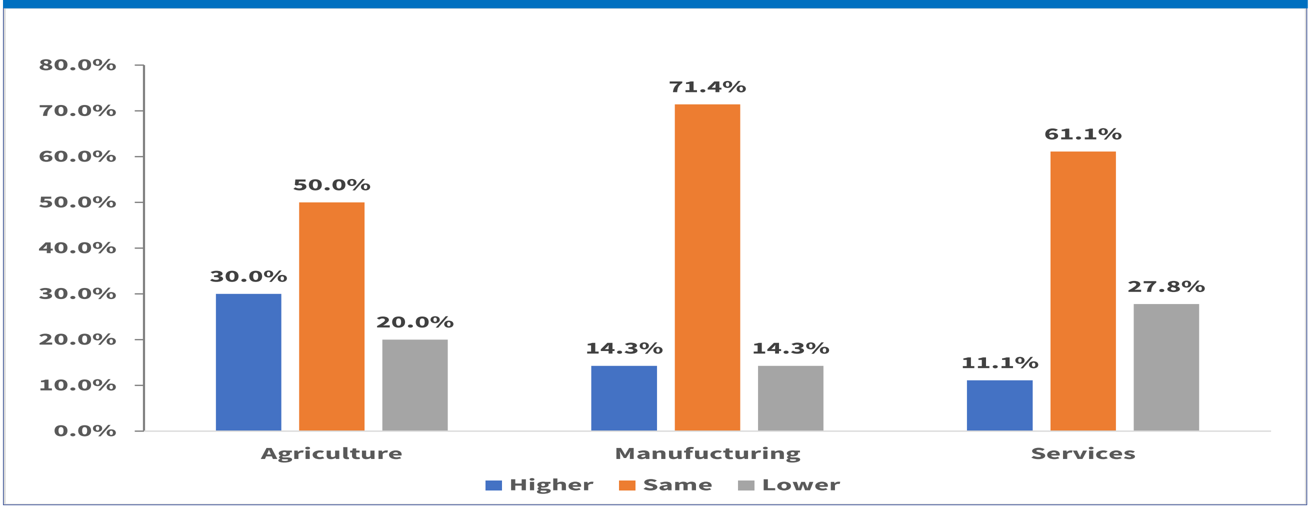


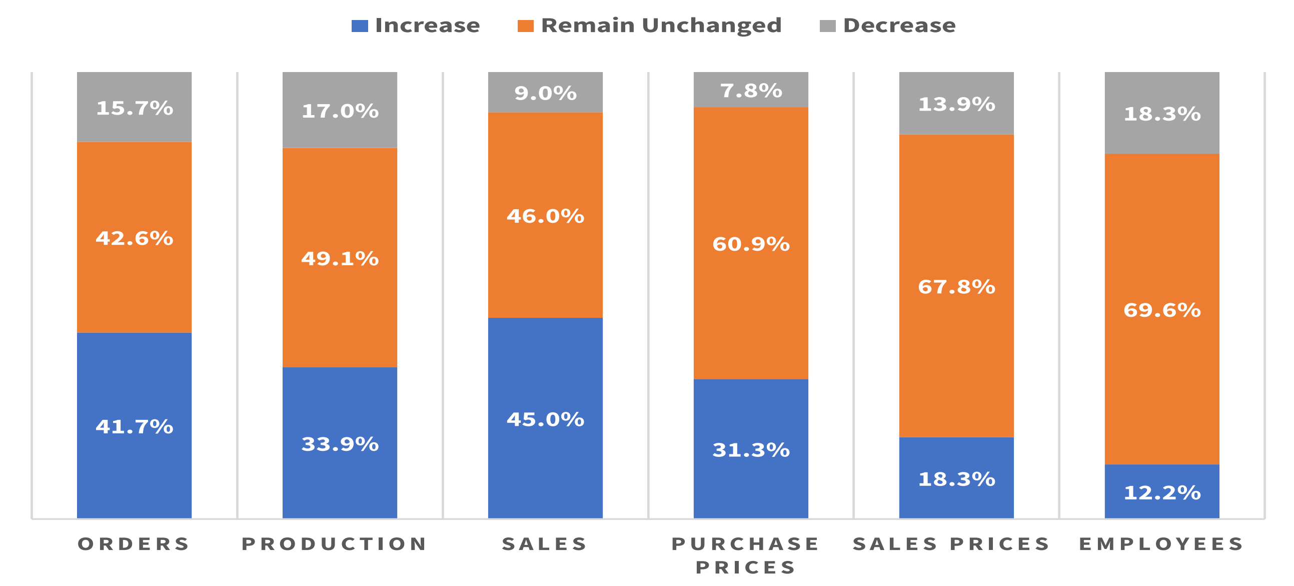
Chart 9: Number of full-time employees in 2024 Q3 compared to 2024 Q2 by sectors (percent of respondents)



7. OUTLOOK FOR BUSINESS ACTIVITY IN 2024 Q4 COMPARED TO 2024 Q3

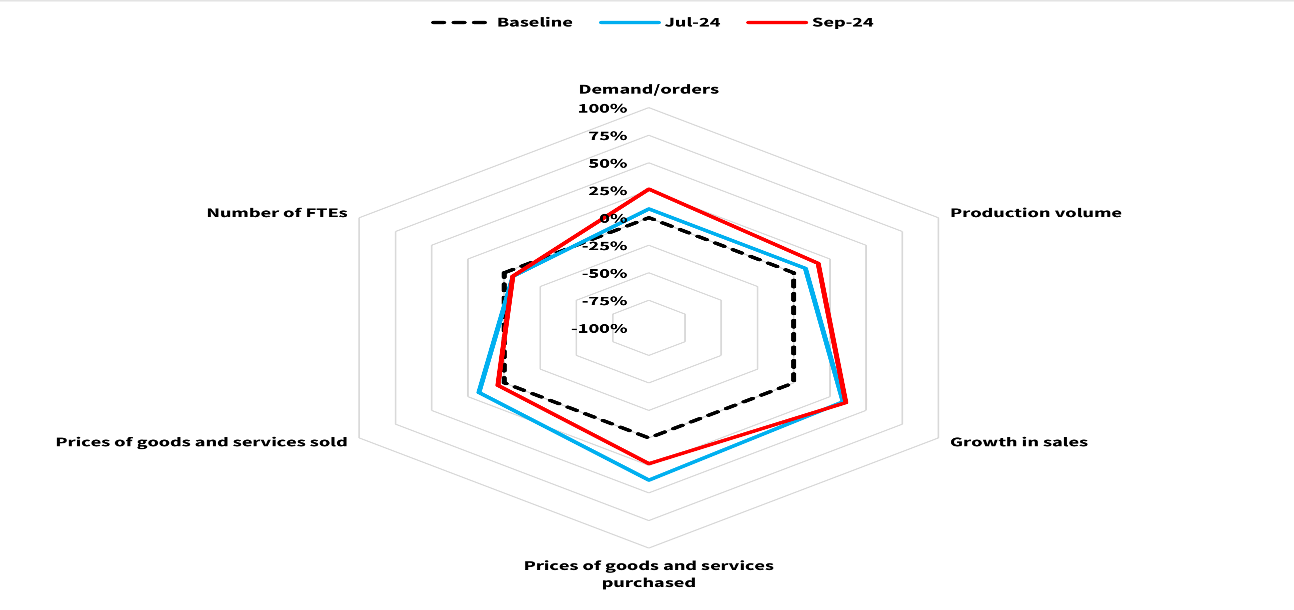
The Survey sought CEOs' expectations of business activity in the fourth quarter of 2024 relative to the third quarter of 2024. More respondents expect business activity in 2024Q4 to improve compared to 2024Q3 **(Chart 10)**.

Chart 10: Outlook on business activity in 2024 Q4 compared to 2024 Q3 (percent of respondents)



A higher proportion of respondents expect business activity to improve in 2024Q4 relative to 2024Q3. More respondents expect higher demand orders and production volume, and stability in sales growth and the number of full-time employees. Additionally, prices of goods and services (input and output costs) are expected to decline, reflective of price developments in the domestic and global markets **(Chart 11)**.

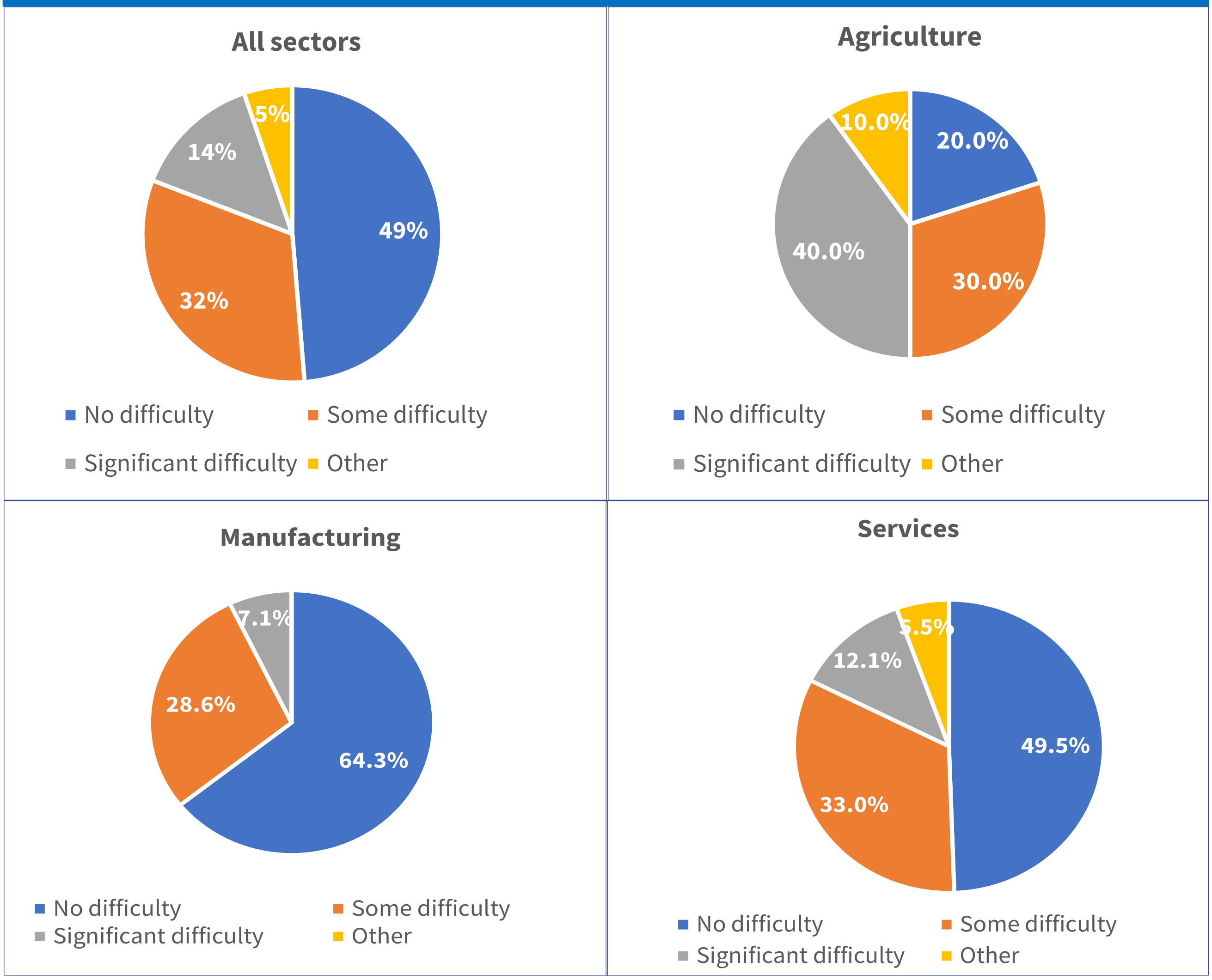
Chart 11: Expectations of business activity in 2024 Q4 compared to 2024 Q3 (percent of respondents)



Overall, a larger proportion of respondents do not foresee any difficulties in meeting an unexpected increase in demand. This is because any unexpected increase in demand can be met through utilization of the available resources and idle capacity such as infrastructure, labour and technology. Firms can also access the required supplies such as raw materials by leveraging on the strong supply chains currently in place. Moreover, firms can utilize inventory buildup that has resulted from slower stock movement due to subdued demand **(Chart 12)**. However, constraints to expansion include; limited financing resulting from challenges in accessing credit facilities due to the high cost of borrowing and delayed payments by creditors, the high cost of doing business,(including cost of operations and compliance), as well as the lead time required to increase capacity.

Firms in the agriculture sector foresee difficulties in expanding operations unexpectedly, largely due to challenges in accessing financing to facilitate activity and unprecedented increase in taxes by the national government. However, availability of raw materials due to increased production supported by favourable weather conditions is expected to support activity. In the manufacturing sector, excess idle capacity exists, as most firms have been operating below capacity due to high cost of operations vis a vis subdued consumer demand, and therefore firms have minimal difficulties in expanding operations. Similar views are expressed by players in the services sector.

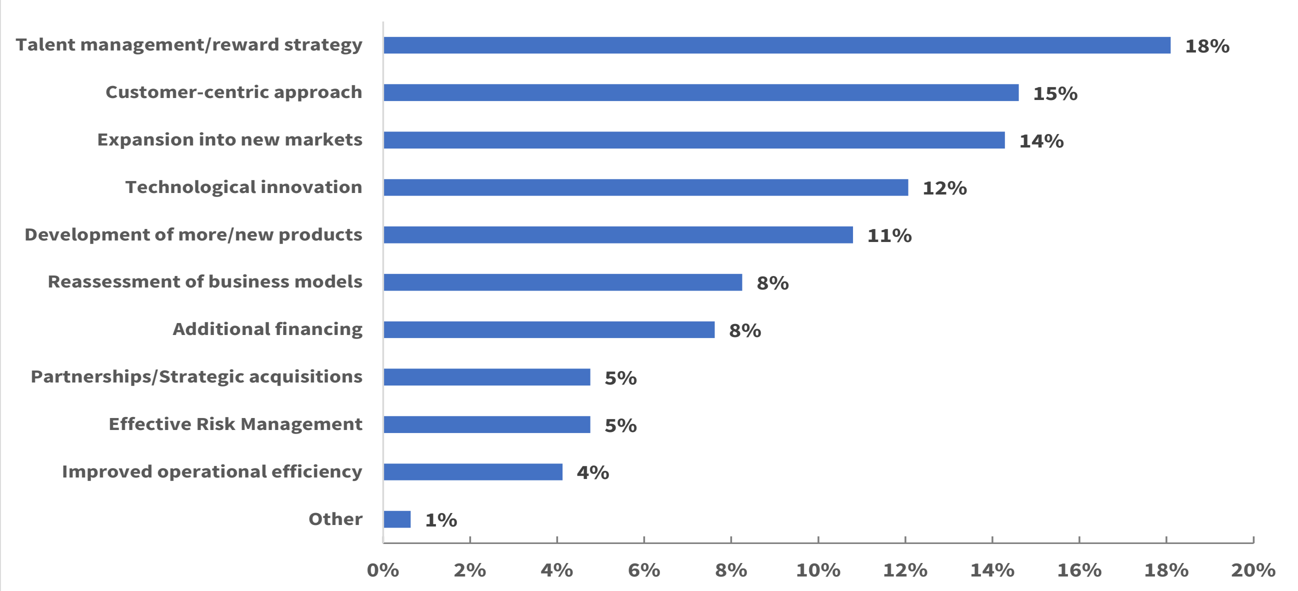
Chart 12: Potential level of difficulty in meeting increased demand (percent of respondents)



8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

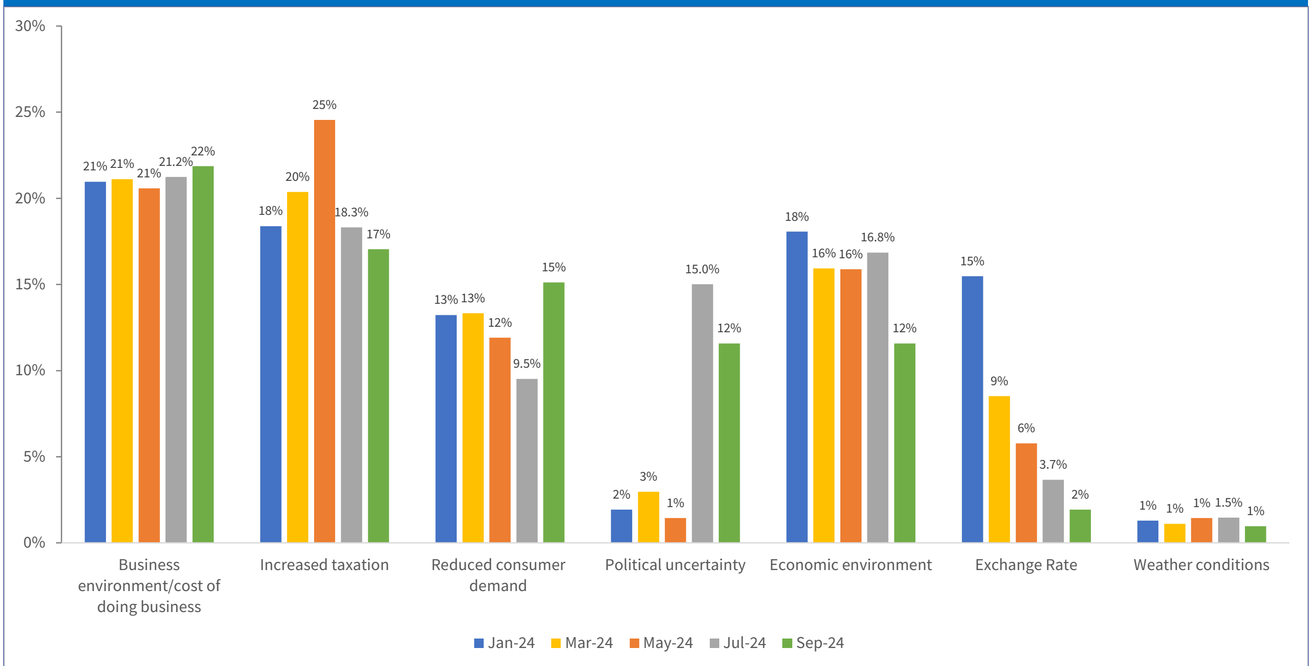
The Survey sought to establish the drivers of firm expansion and growth, domestic and external factors that could constrain their growth and/or expansion over the next one year and their mitigating factors. A higher proportion of respondents reported talent management, customer centricity and expansion into new markets as the key drivers of firms' growth over the next 12 months **(Chart 13)**.

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



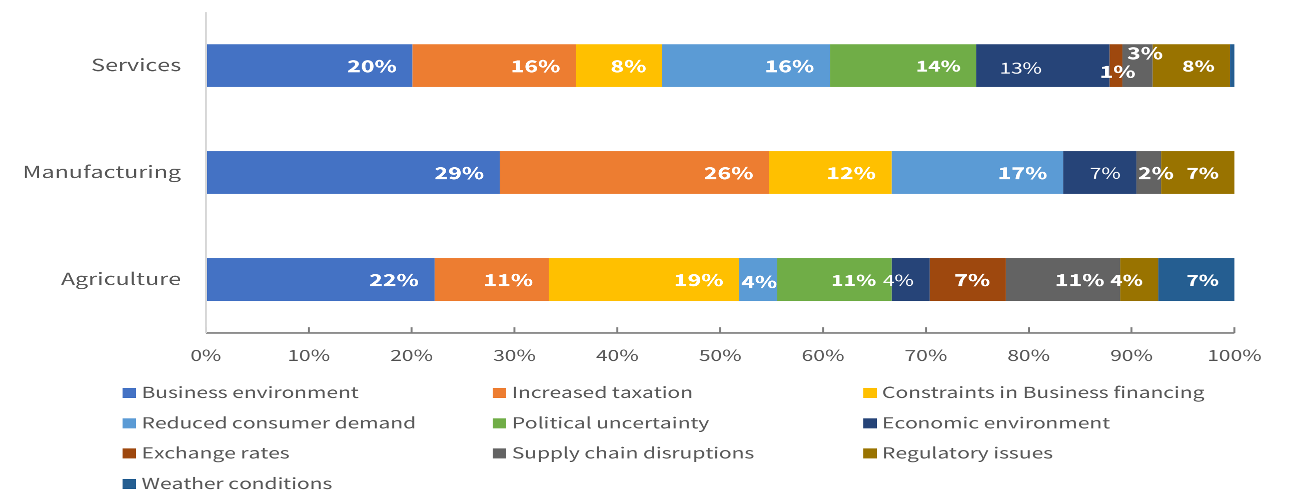
More respondents highlighted the business environment, particularly the cost of doing business, taxes and levies, reduced consumer demand and political uncertainty as key domestic factors that could constrain their growth in the next 12 months **(Chart 14)**.

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



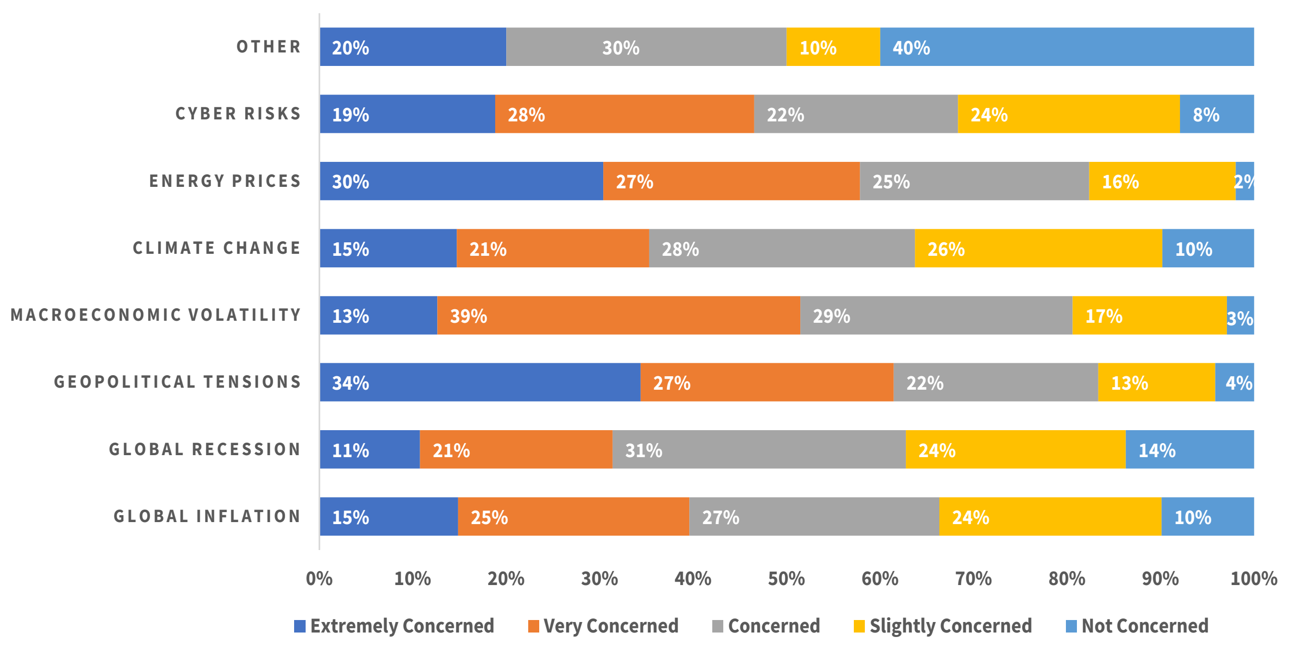
Overall, business environment, challenges in business financing, and increased taxation are key constraining factors across all sectors. In addition, weather conditions and supply chain disruptions were prominent constraints for players in the agriculture sector. Other constraints in the manufacturing sector include reduced consumer demand and regulatory issues. For respondents in the services sector, reduced consumer demand and political uncertainty are key **(Chart 15)**.

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



The major external (non-domestic) threats to business expansion growth include geopolitical tensions given their impact on global supply chains, energy prices and macroeconomic volatility **(Chart 16)**.

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



Firms continue to employ strategies to mitigate the constraining factors to growth. Some of these strategies include management of costs and risks, diversification of operations and increased marketing to boost sales **(Chart 17&18)**.

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

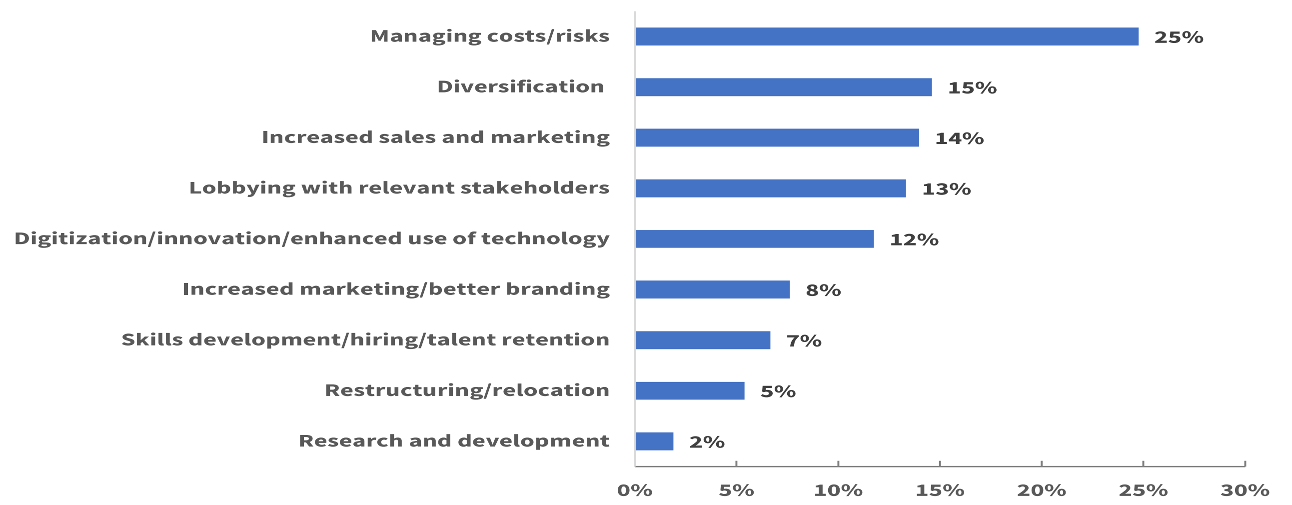
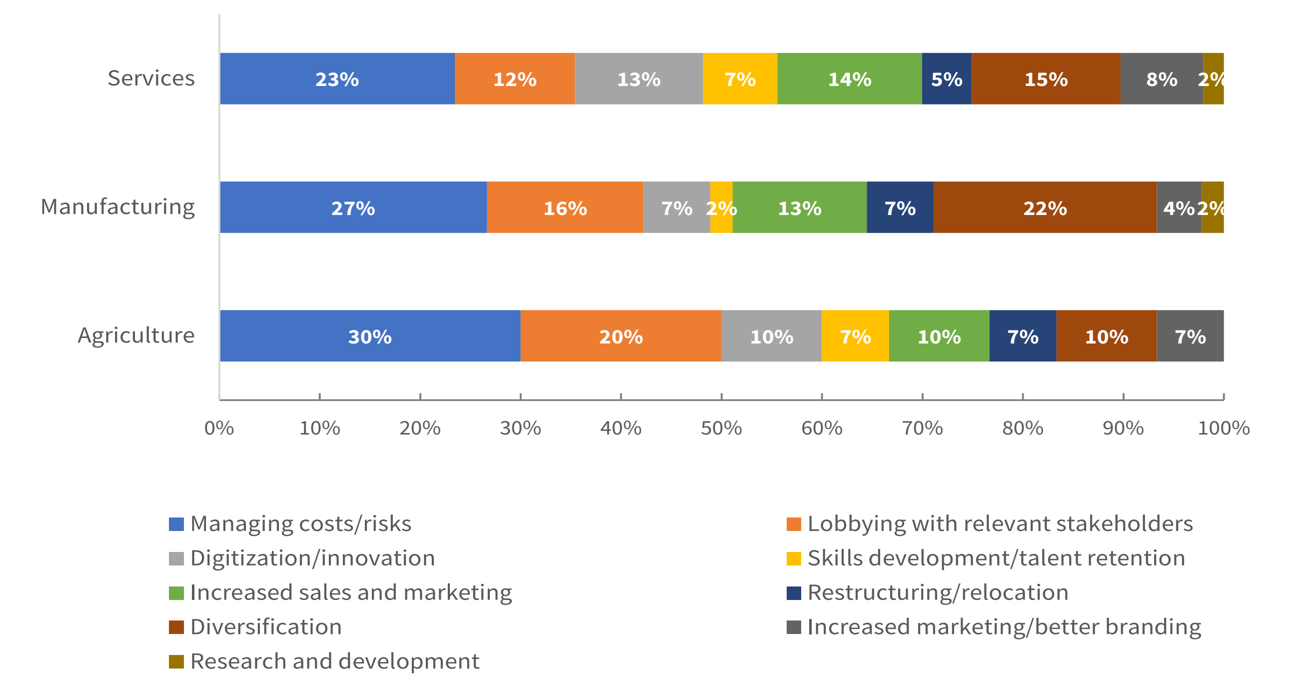


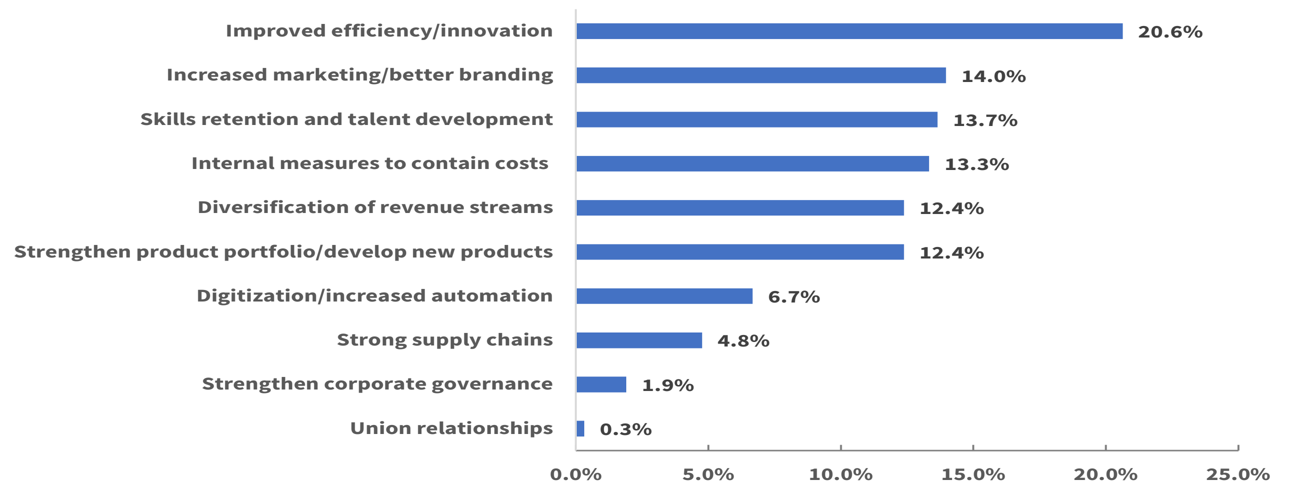
Chart 18: Firms' proposed solutions to factors constraining growth by sector (percent of respondents)



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

The Survey sought to establish internal and external factors that could strengthen firms' outlook over the next 12 months. A higher proportion of respondents reported improved efficiency and innovation, increased marketing and better branding, and skills retention as the main internal factors that could strengthen the outlook **(Chart 19)**.

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



An enabling business environment, stability in the economic environment, as well as certainty around taxation are some of the 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)

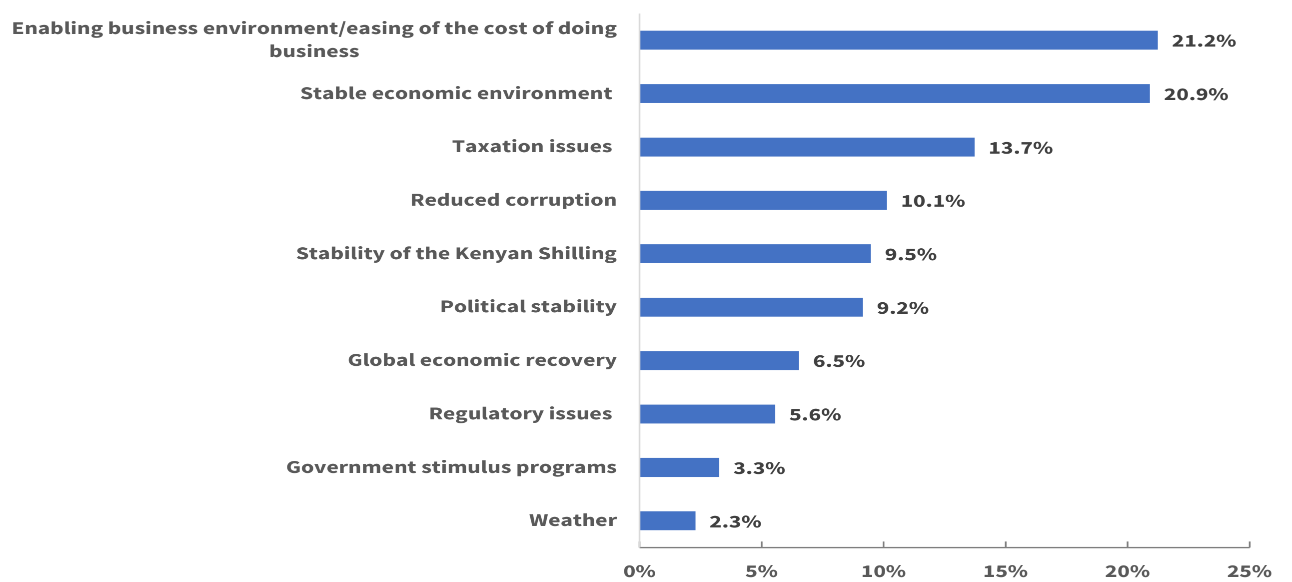
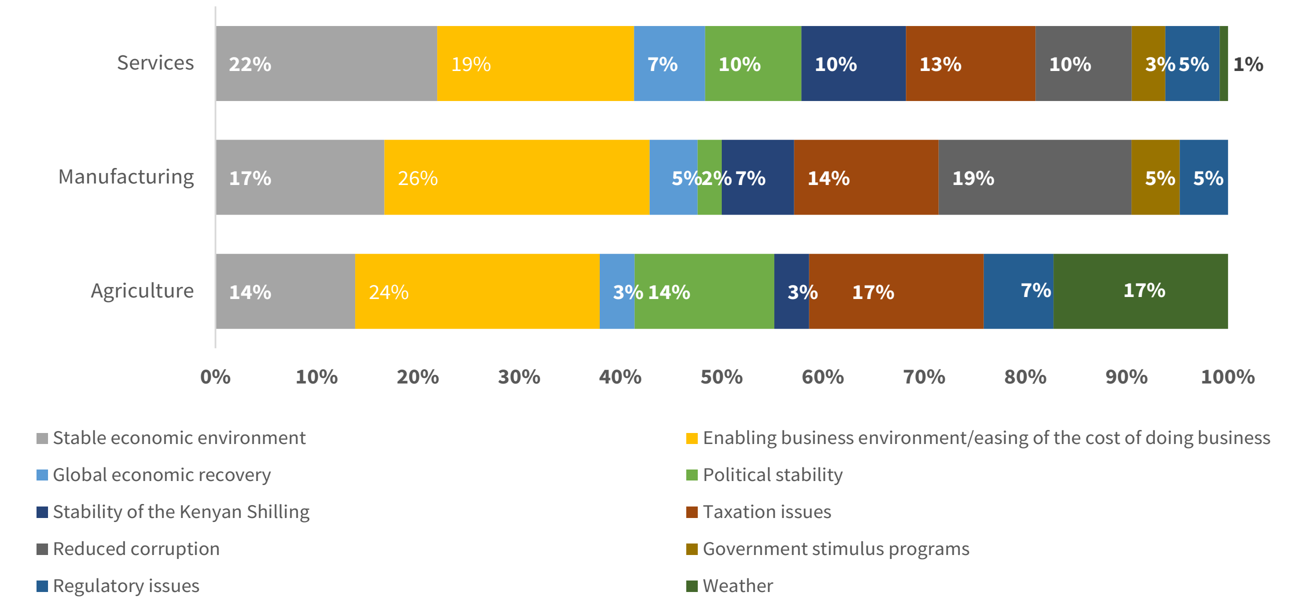


Chart 21: External factors that could strengthen firms' outlook by sectors (percent of respondents)

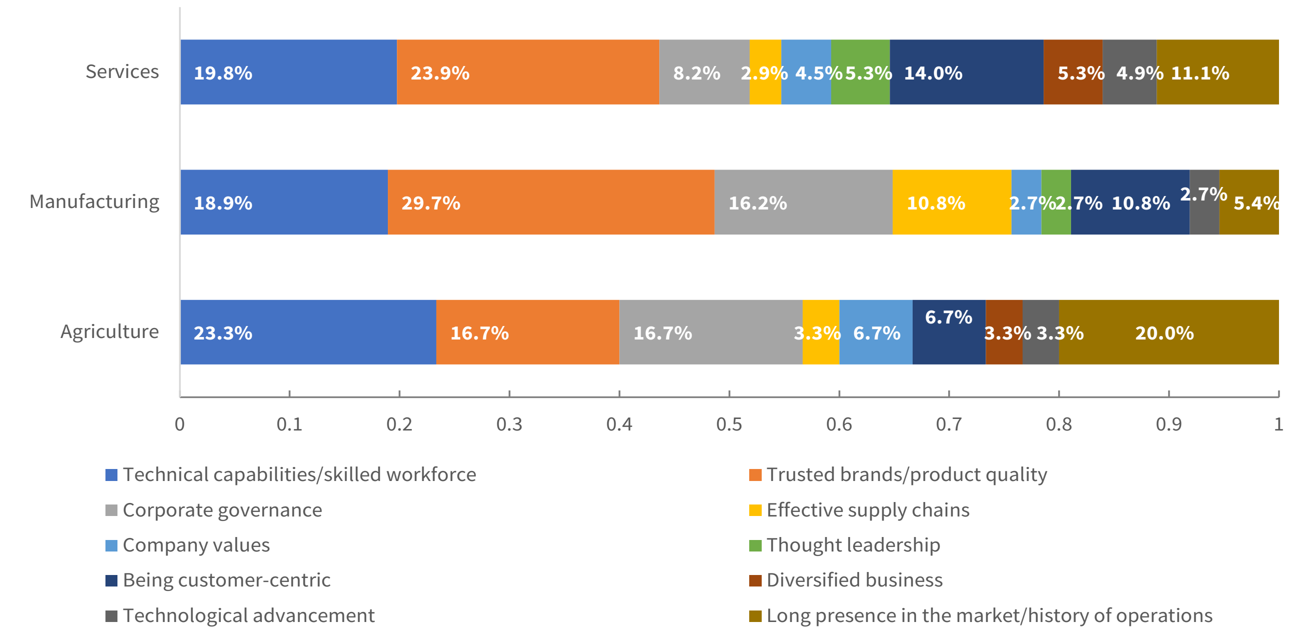


10. TOP COMPANY STRENGTHS

Most firms reported trusted brands and product quality, technical capabilities and skilled workforce, and customer centricity as their top company's strengths **(Chart 22 & 23)**.

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

Chart 23: 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. A higher proportion of respondents reported diversifying operations, improving efficiency and optimizing on costs as key strategic priorities **(Chart 24 & 25)**.

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

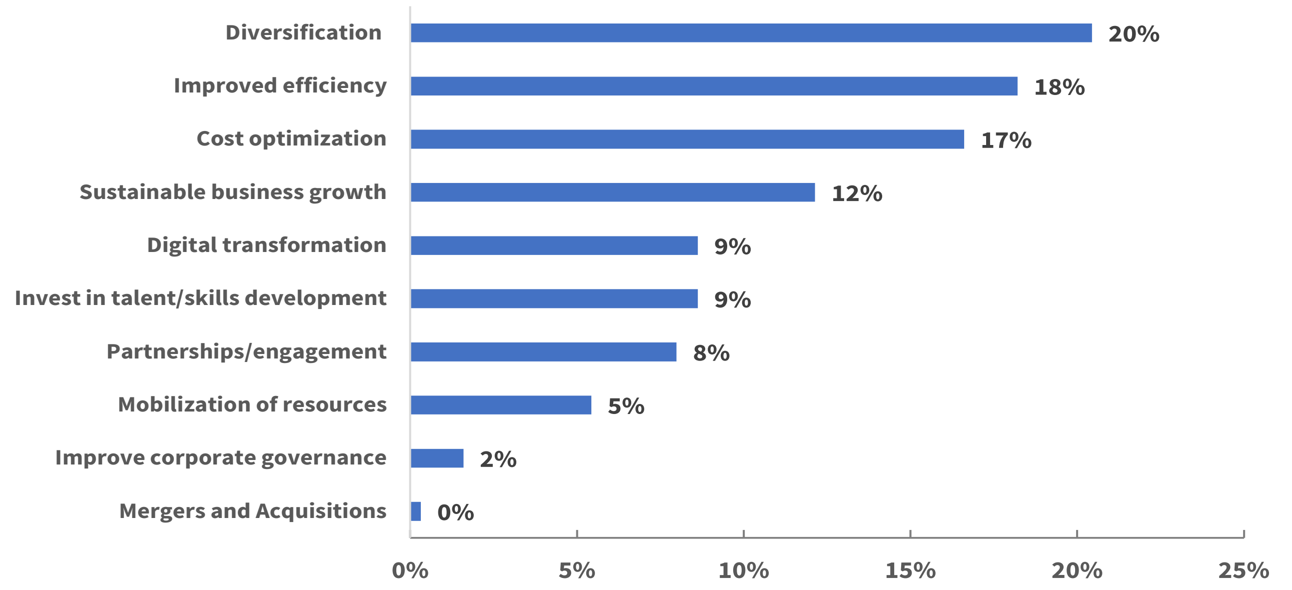
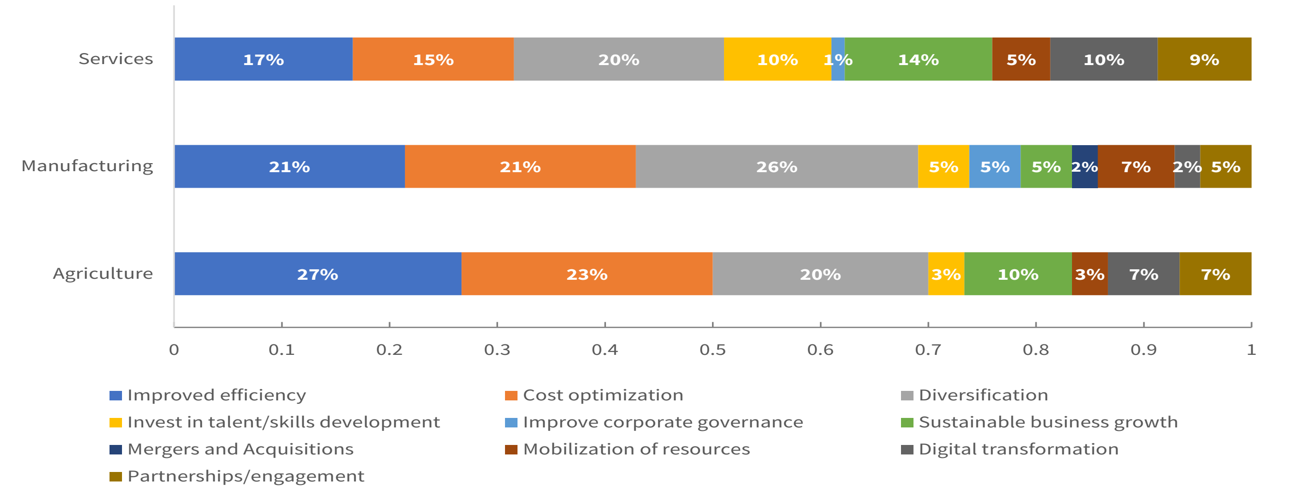


Chart 25: Firms' strategic priorities over the next three years by sector (percent of respondents)



12. CONCLUSION

The September 2024 CEOs Survey showed improved optimism for Kenyan economic growth prospects over the next 12 months, driven by stability of the macroeconomic environment (lower inflation, stability of the shilling), and good weather prospects. Firms reported sustained optimism for company and sectoral growth prospects over the same period. Company growth prospects are mainly supported by specific strategies employed to stimulate growth, while sectoral growth prospects are driven by sector specific growth strategies, opportunities, and seasonality factors.

Meanwhile, global growth prospects remain positive, largely on account of lower global inflation, interest rates cuts in major economies and expected conclusion of elections in major advanced economies. However, increasing geopolitical tensions continue to pose a threat.

Business activity in Q3 2024 was lower compared to Q2 2024, largely on account of the political disruptions experienced in the quarter. Business activity in Q4 2024 is expected to improve on account seasonal factors and recovery from the effects of the political disturbances experienced in the previous quarter.

Cost of doing business, cost of credit, reduced consumer demand, and political interruptions are key domestic factors constraining firms' growth in the next 12 months. Geopolitical tensions, energy prices and cyber risks are the main external threats to firms' growth over the same time. However, firms will employ strategies such as managing costs and risks, diversification of operations, and lobbying with relevant stakeholders in order to mitigate their constraining factors.

Most firms reported trusted brands and product quality, technical capabilities and skilled workforce, and customer centricity as their top company's strengths. Firms' key strategic priorities over the medium term include diversification of operations, improvement in efficiency and optimization of costs.

13. RECOMMENDATIONS ON HOW THE BUSINESS ENVIRONMENT CAN BE IMPROVED

The respondents gave recommendations on how the business environment in Kenya can be improved to enhance economic performance. These include the following:

i. Address the issue of overregulation, and double taxation as well as overlapping levies in the tourism and agriculture sector.
ii. Address the labor market strikes as they disrupt business operations and have a ripple effect to other sectors of the economy.
iii. Tackle corruption in government institutions to ensure fiscal discipline.
iv. Implementation of geothermal projects to spur

growth in the energy sector.

v. Implement policies that promote production as opposed to consumption.
vi. Formulate and implement policies that support mechanization in the agriculture sector to boost performance.
vii. Hasten settlement of pending bills to avail financing to businesses.
viii. Lower cost of credit to enhance access to financing to boost activity.
ix. Provide a friendly business environment to investors as they have capacity to generate employment opportunities.
x. Support the manufacturing sector to enhance competitiveness relative to imports.

Central Bank of Kenya

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