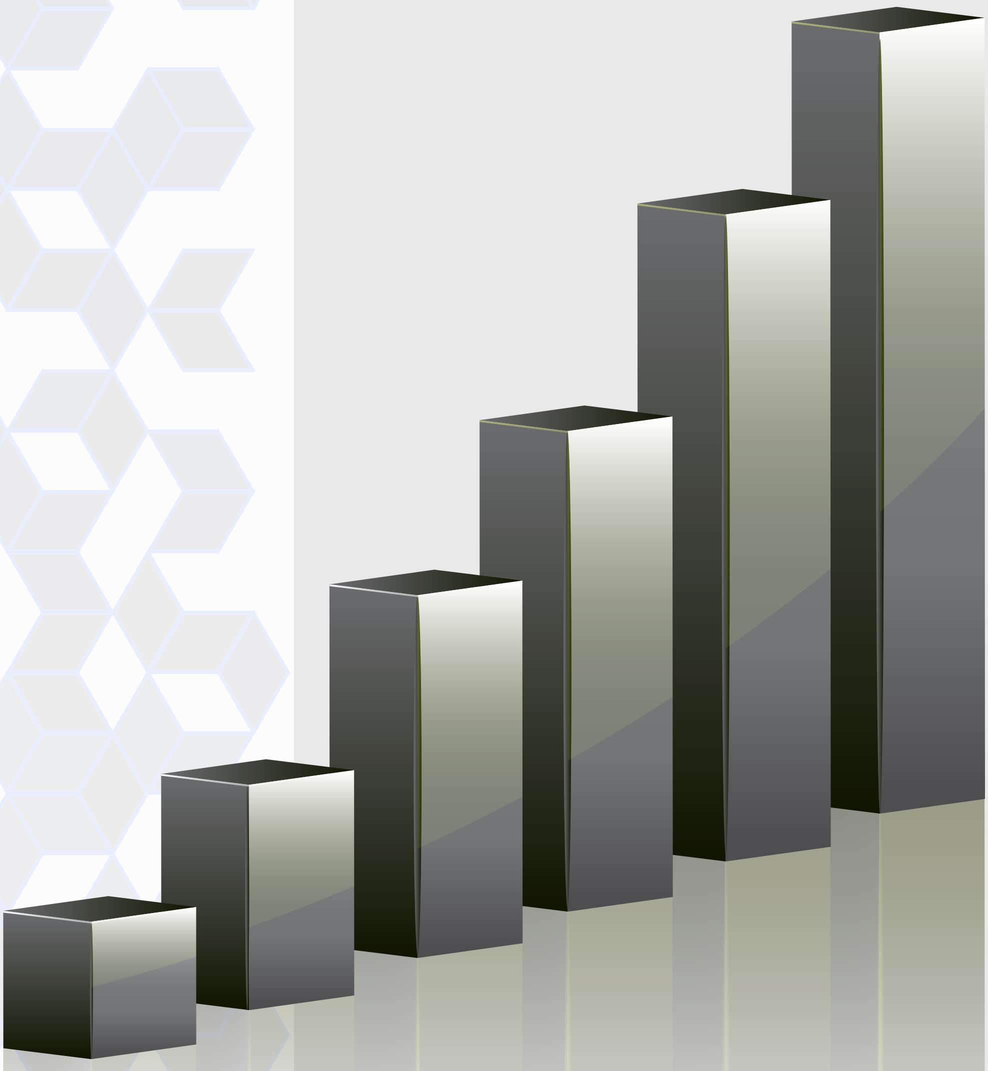
Central Bank of Kenya

Chief Executive Officers'(CEOs) Survey

NOVEMBER 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 November 11 and November 22, 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 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 (November 2024 – October 2025), as well as the strategic directions and solutions to address their key constraining factors over the medium term (November 2024 – October 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 (16 percent), financial services (16 percent), manufacturing (13 percent), agriculture (11 percent), professional services (9 percent), healthcare and pharmaceuticals (9 percent), ICT and telecommunications (8 percent), wholesale and retail trade (6 percent), transport and storage (3 percent), education (3 percent), and real estate (3 percent). Other sectors such as media, mining and energy, building and construction, security, and other sectors not specified accounted for one percent of the respondents each or less.

Majority of the respondents (74 percent) were privately-owned domestic firms, while the rest were privately-owned foreign businesses (17 percent), government owned entities (4 percent), publicly listed foreign companies (2 percent), publicly listed domestic companies (1 percent) and other ownership structure (2 percent). Forty three percent of the respondents had a turnover of over Ksh 1 billion in 2023, while forty two percent of the respondents had a turnover of less than Ksh 250 million during the same period. In terms of employment, 48 percent of respondents employed less than 100 employees, while 14 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:

- Respondents reported moderated optimism in growth prospects for Kenya for the next 12 months largely on account of muted consumer demand, high cost of doing business and taxation. However, a stable shilling, lower inflation, good weather prospects and expected decline in lending interest rates are expected to support growth.

- Higher growth prospects for companies driven by company specific strategies and expectations of enhanced access to financing due to the effects of monetary policy easing. Sectoral growth prospects are lower, largely on account of sector specific challenges.
- More firms reported higher optimism for global growth prospects in the next 12 months, supported by lower global inflation and interest rates cuts in major economies. However, concerns around increased geopolitical tensions, expected change in policy by the new US administration, and an uptick in global food prices remain.
- Firms reported improved business performance in 2024 Q4 relative to 2024 Q3, attributed to increased demand during the festive season.
- The balance of opinion shows expectations of lower business activity in 2025 Q1 compared to 2024 Q4 largely on account of seasonal factors.
- The cost of doing business, taxation and reduced consumer demand are key domestic factors that could constrain firms' growth in the next 12 months. However, firms will mitigate the constraining factors by managing costs and risks, diversifying operations and increasing sales and marketing of their goods and services.

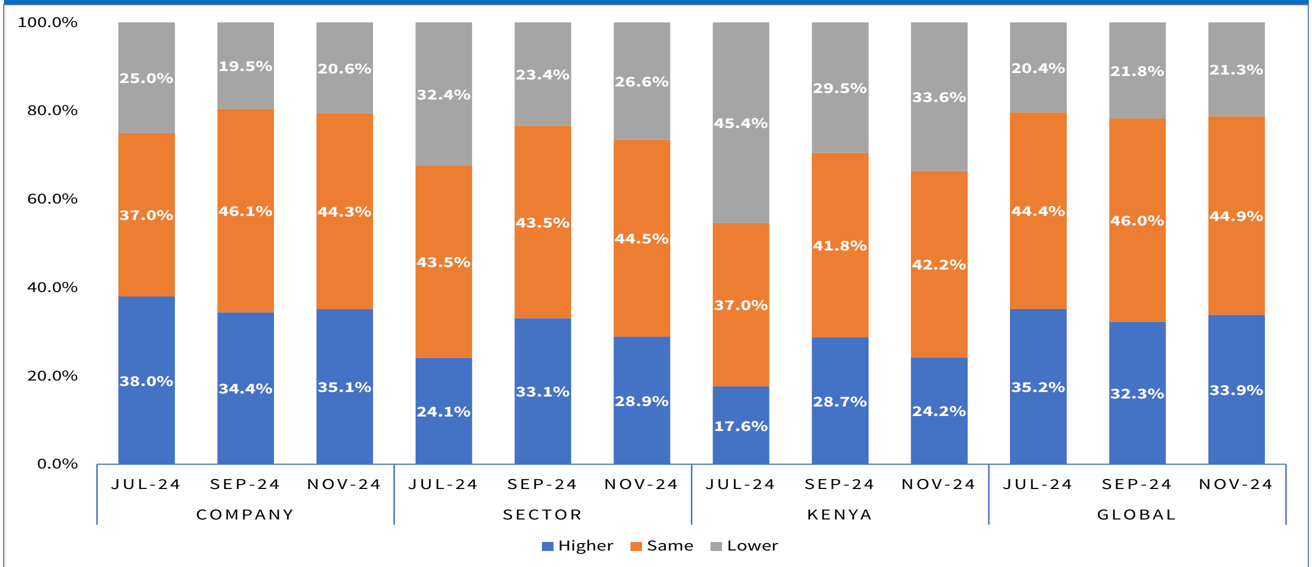
5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS

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 moderated optimism for the Kenyan economy, largely on account of muted consumer demand, high cost of doing business, and increased taxes and levies.

However, a stable shilling and lower inflation, expectations of interest rates decline in response to monetary policy actions, and favourable weather conditions continue to support growth prospects **(Chart 1)**. Company growth prospects for the next 12 months show improvement, supported by company specific strategies to spur growth. Companies expect growth to result from product diversification, employment of internal measures to contain costs, customer centric approach to operations, and expectations of enhanced access to financing supported by accomodative monetary policy. However, subdued consumer demand and liquidity constraints resulting from pending bills and elevated cost of borrowing continue to pose a threat to growth.

Sectoral growth prospects exhibited mixed performance with sector specific challenges and seasonal factors reported as risks to the growth outlook **(Chart 2)**. Specifically, the agriculture sector is expected to continue recording enhanced performance, supported by good weather prospects and increased demand for agricultural exports. However, challenges such as increased cost of production, taxes, and limited freight capacity for exports continue to impact on the sector. The financial sector continues to benefit from high demand for financial services and innovations aligned with the dynamic customer needs. Nevertheless, elevated loans default continues to pose a threat to the sector's performance.

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

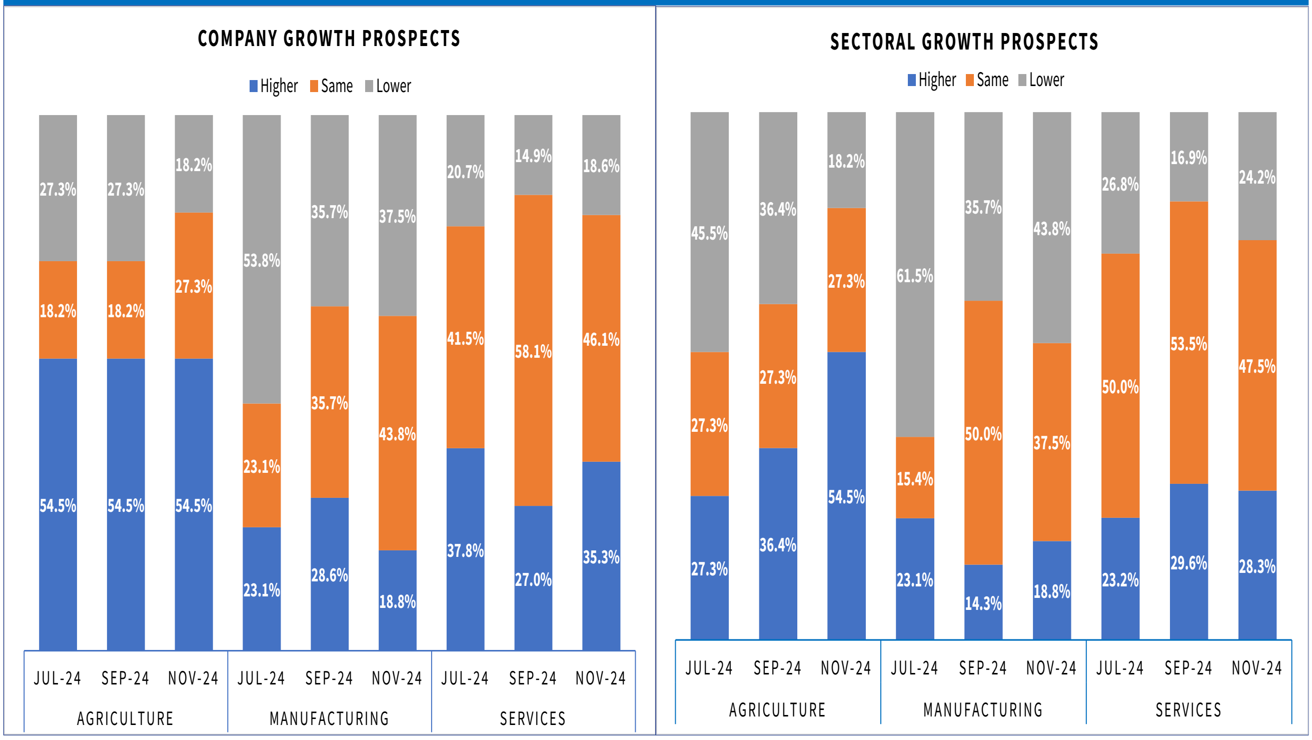


The ICT sector is expected to continue benefiting from increased digitalization of the economy. The education sector prospects remain positive, supported by increasing demand for educational services and adoption of virtual educational programs. The tourism sector continues to benefit from the elevated activity during the festivities, and the remaining period of the peak season (December-February). Opportunities exist through innovations in the sector, infrastructural development in remote areas, increased marketing of Kenya's tourism sector to emerging markets and support to sustainable tourism practices. However, the sector is likely to be affected by higher park fees and proposed bill to charge VAT on travel services. The transport sector is expected to benefit from increased demand during the festive season. However, the sector is expected to be impacted by slowdown in key linked sectors in the post-festive season.

Growth prospects of some key sectors is reportedly constrained. The manufacturing sector continues to be impacted by high cost of doing business, taxation and statutory deductions, liquidity constraints from the elevated cost of borrowing and pending bills, subdued consumer demand, and reduced competitiveness. Wholesale and retail trade prospects are undermined by subdued demand. The health sector presents opportunities for growth with the adoption of the Social Health Insurance Fund, although transitional challenges and delayed insurance claims payment prevail **(Chart 2)**.

Global growth prospects are higher, largely on account of lower global inflation and recent interest rates cuts in major economies. However, concerns around escalated geopolitical tensions and its impact on global supply chains, uptick in global food prices, and the expected change in policies by the new US administration remain.

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



6. BUSINESS ACTIVITY IN 2024 Q4 COMPARED TO 2024 Q3

On average, firms in the services sector reported stability in business activity during the third quarter of 2024. Firms reported marginal increases in demand orders during the quarter, largely driven by seasonality factors, particularly the increased demand associated with the festive season. This is reflected in increased growth in sales. Production volumes were lower during the quarter, largely on account of carryover stocks resulting from subdued consumer demand. Meanwhile, the number of full-time employees remained largely unchanged. Input costs (prices of goods and services purchased) were lower, in line with developments in the domestic and global commodity prices. In contrast, prices of goods and services sold (sales prices) were reportedly higher during the quarter, reflective of upward adjustment of prices by firms as they transfer the high cost of doing business to consumers **(Chart 3)**.

More respondents in the agriculture sector recorded higher demand orders and resultant growth in sales during the quarter. However, the number of full-time employees was lower, in line with the seasonal nature of agricultural activities. The quarter coincided with the short rains period, during which agricultural activities are lower compared to the long rains season, and farmers prioritize crops with short maturity period. Firms reported stability in production volumes and purchase prices during the quarter **(Chart 4 to 9)**.

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

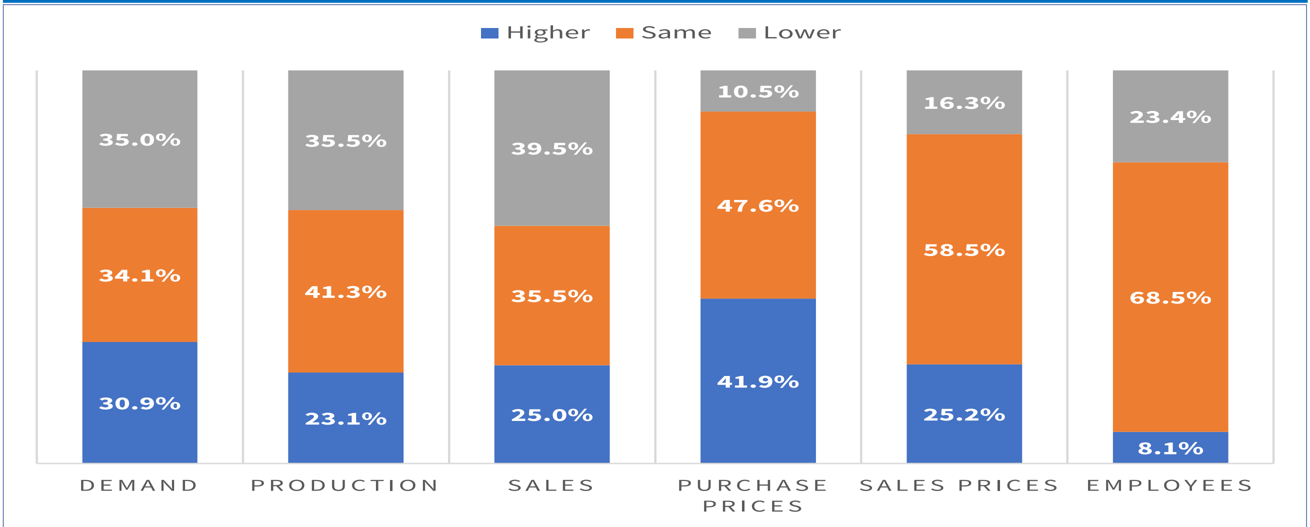


Chart 4: Business activity in 2024 Q4 compared to 2024 Q3 (percent of respondents)

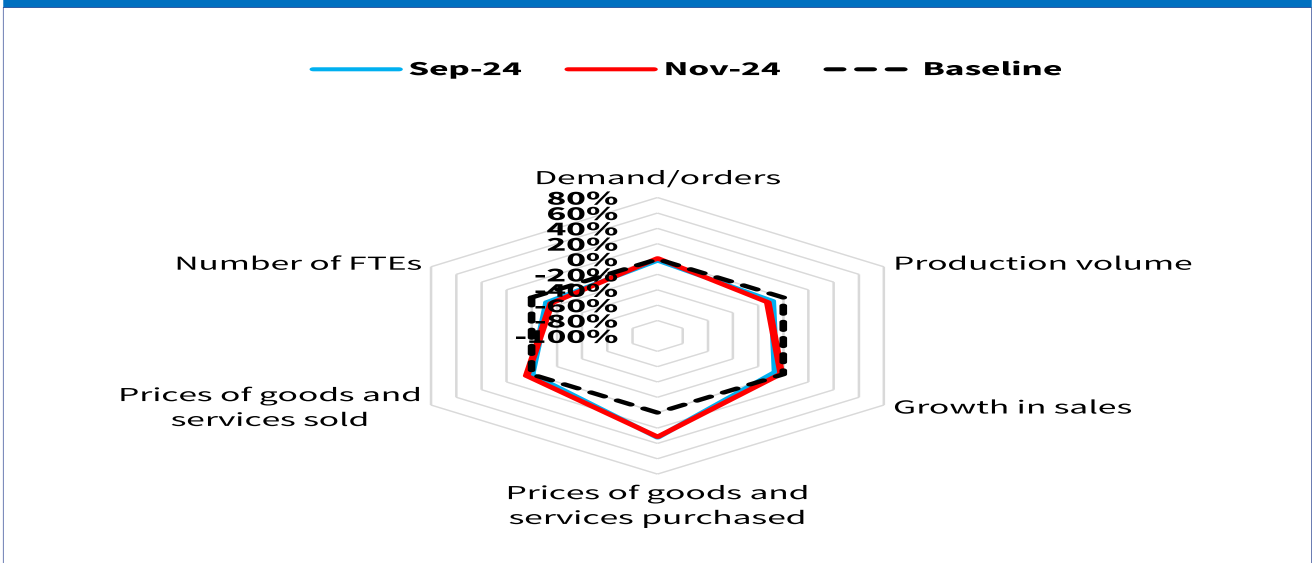


Chart 5: Demand/Orders in 2024 Q4 relative to 2024 Q3 by sectors (percent of respondents)

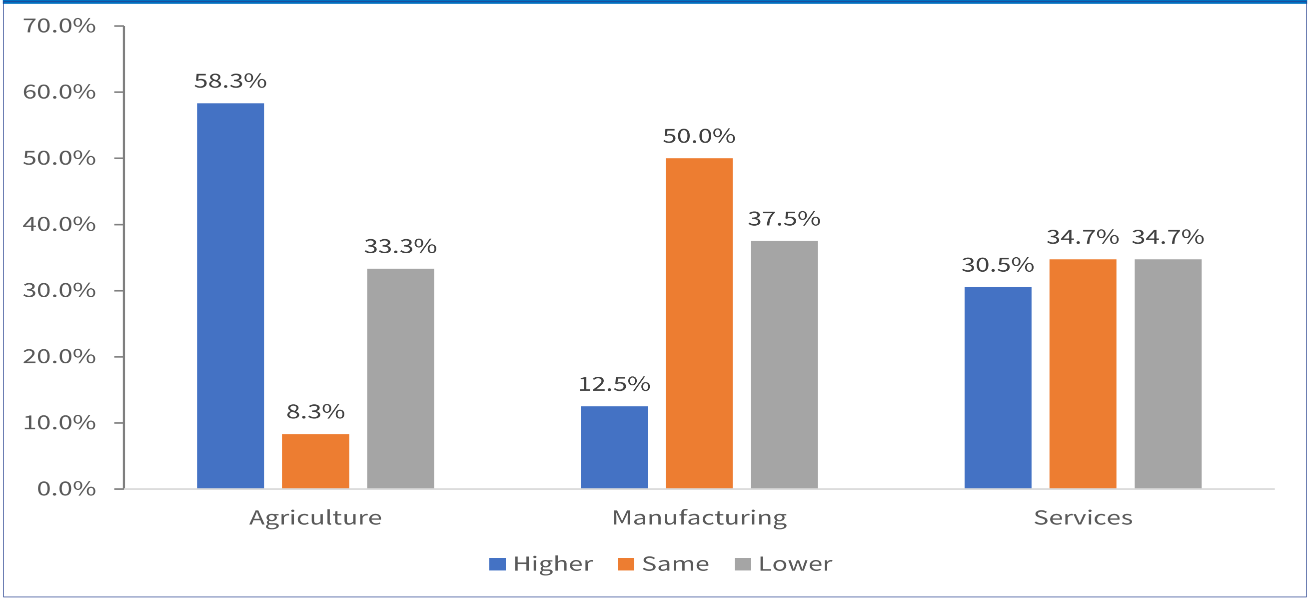


Chart 6: Sales growth in 2024 Q4 relative to 2024 Q3 by sectors (percent of respondents)

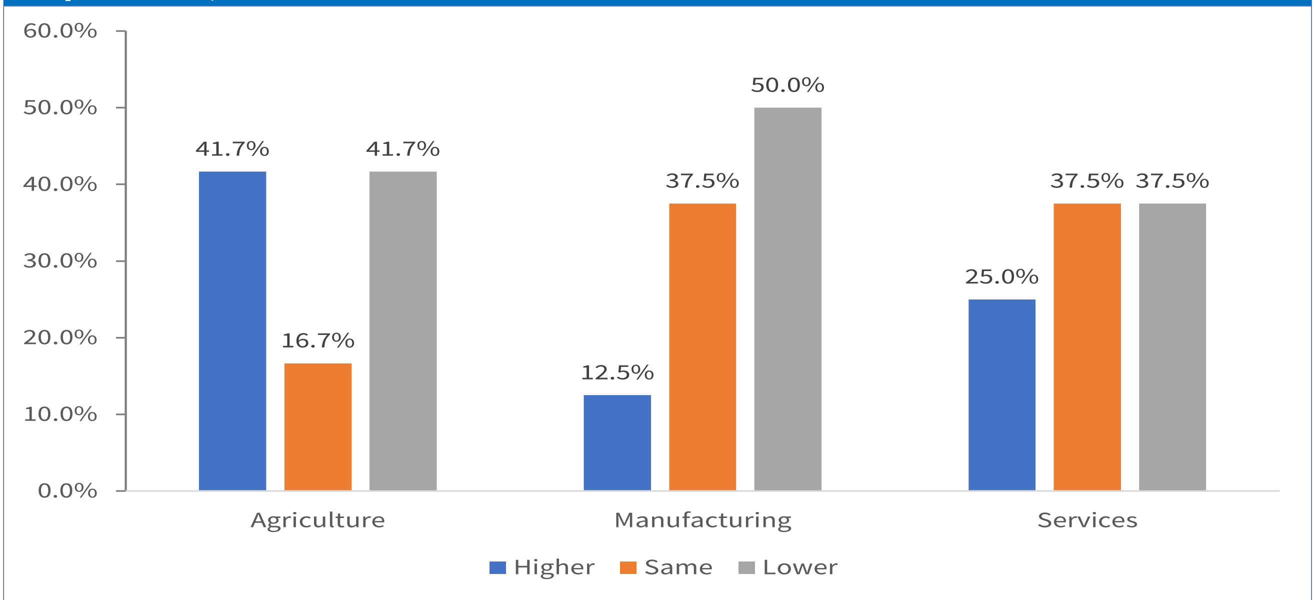


Chart 7: Purchase prices in 2024 Q4 compared to 2024 Q3 by sectors (percent of respondents)

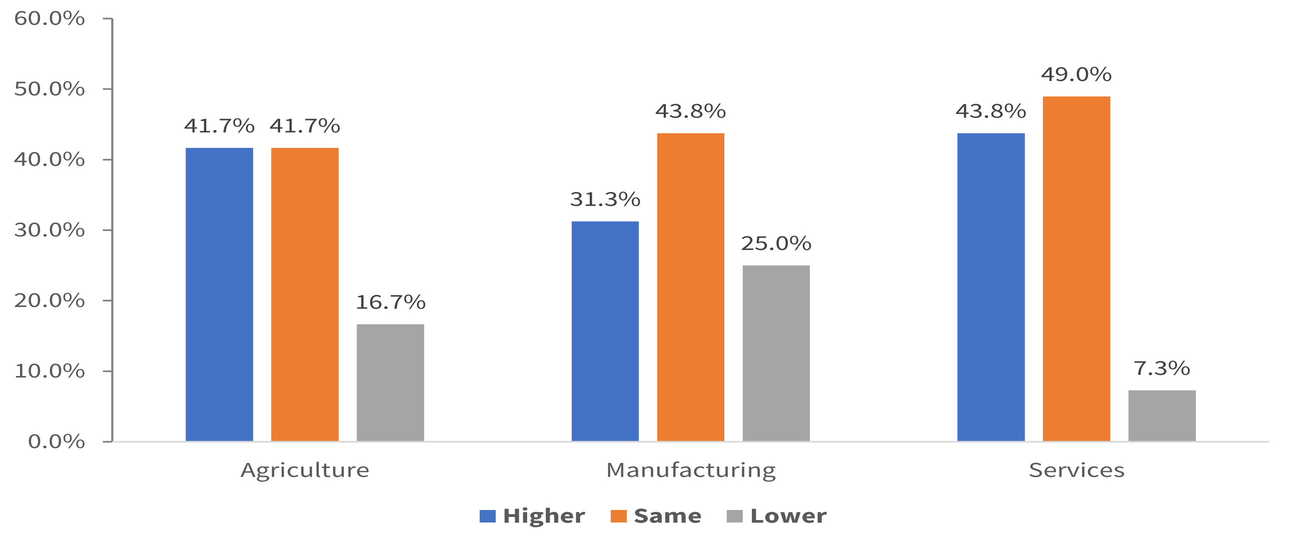


Chart 8: Production volumes in 2024 Q4 compared to 2024 Q3 by sectors (percent of respondents)

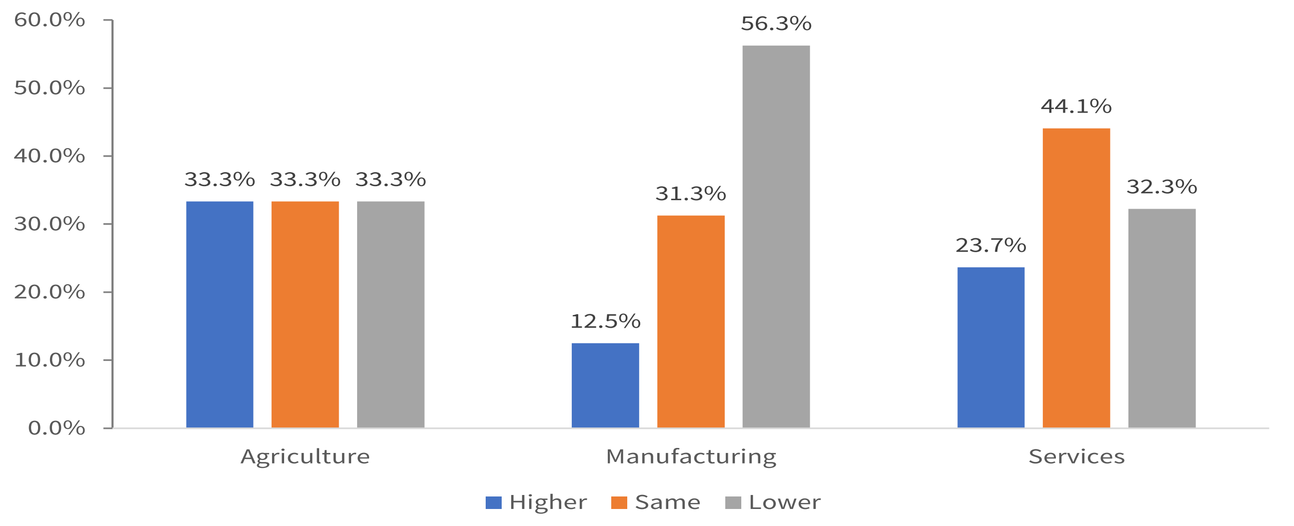
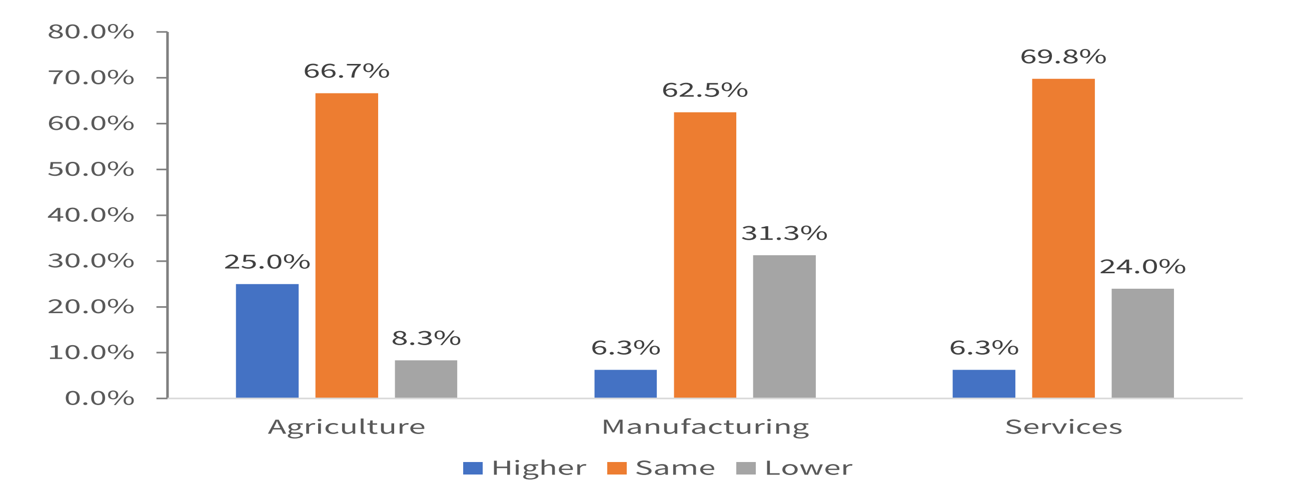


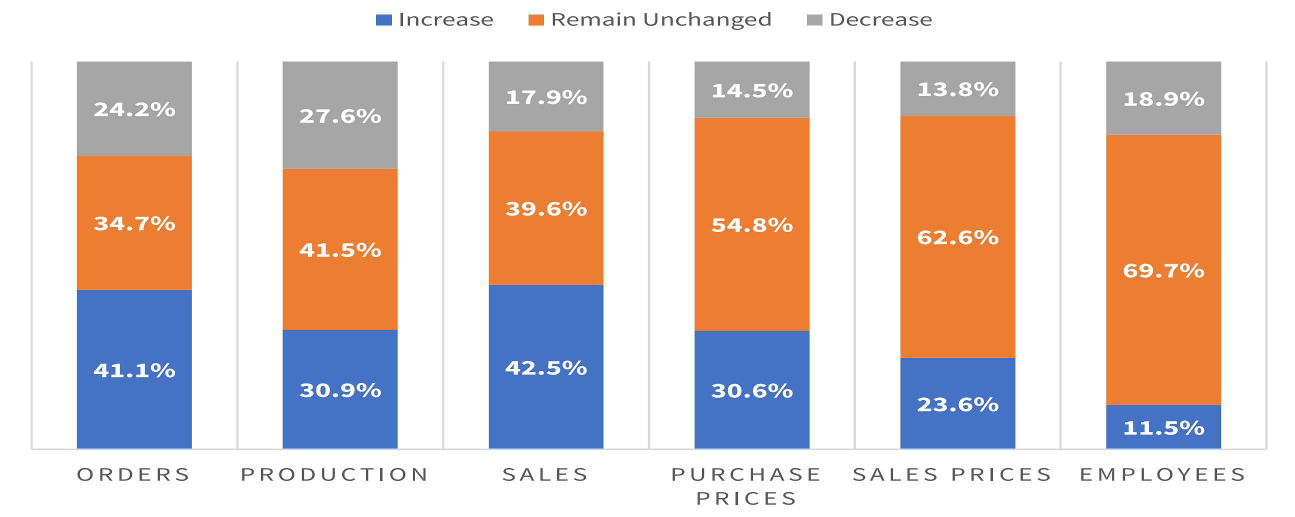
Chart 9: Number of full-time employees in 2024 Q4 compared to 2024 Q3 by sectors (percent of respondents)



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

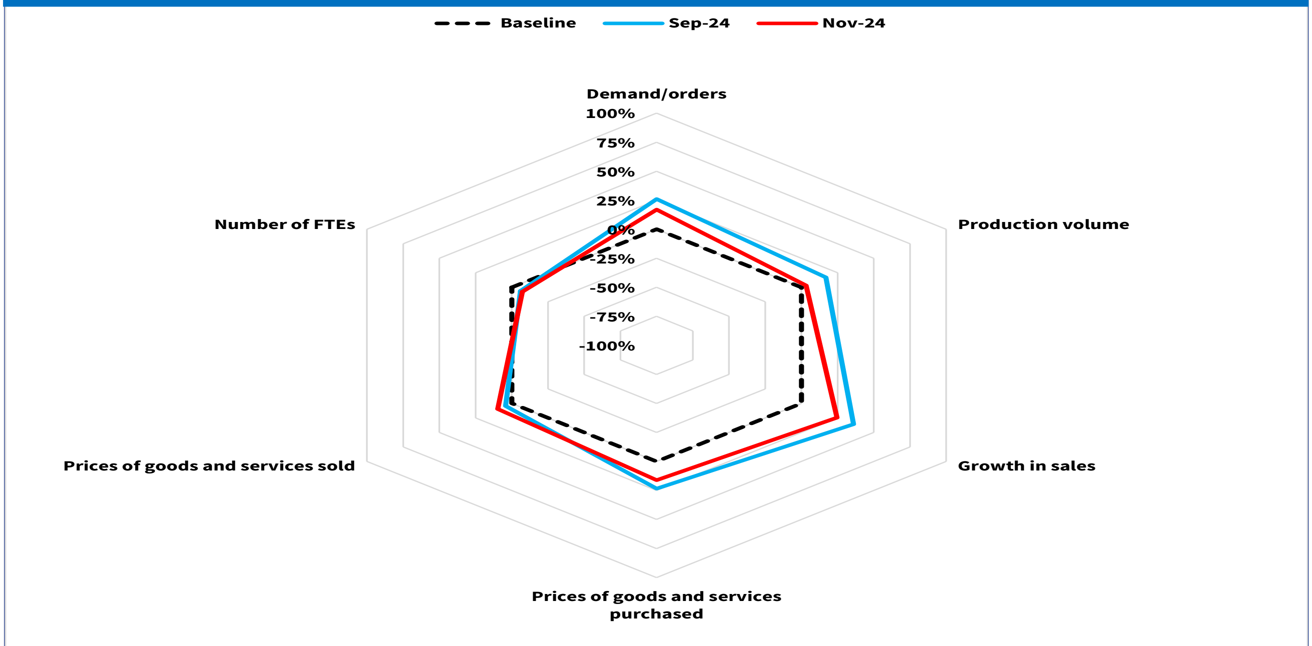
The Survey sought CEOs expectations of business activity in the first quarter of 2025 relative to the fourth quarter of 2024. The survey shows that 41.1 percent and 42.5 percent of the respondents expect increased demand orders and growth in sales, respectively. Nevertheless, more respondents expect stability in the number of full-time employees, purchase and sales prices during the quarter **(Chart 10)**.

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



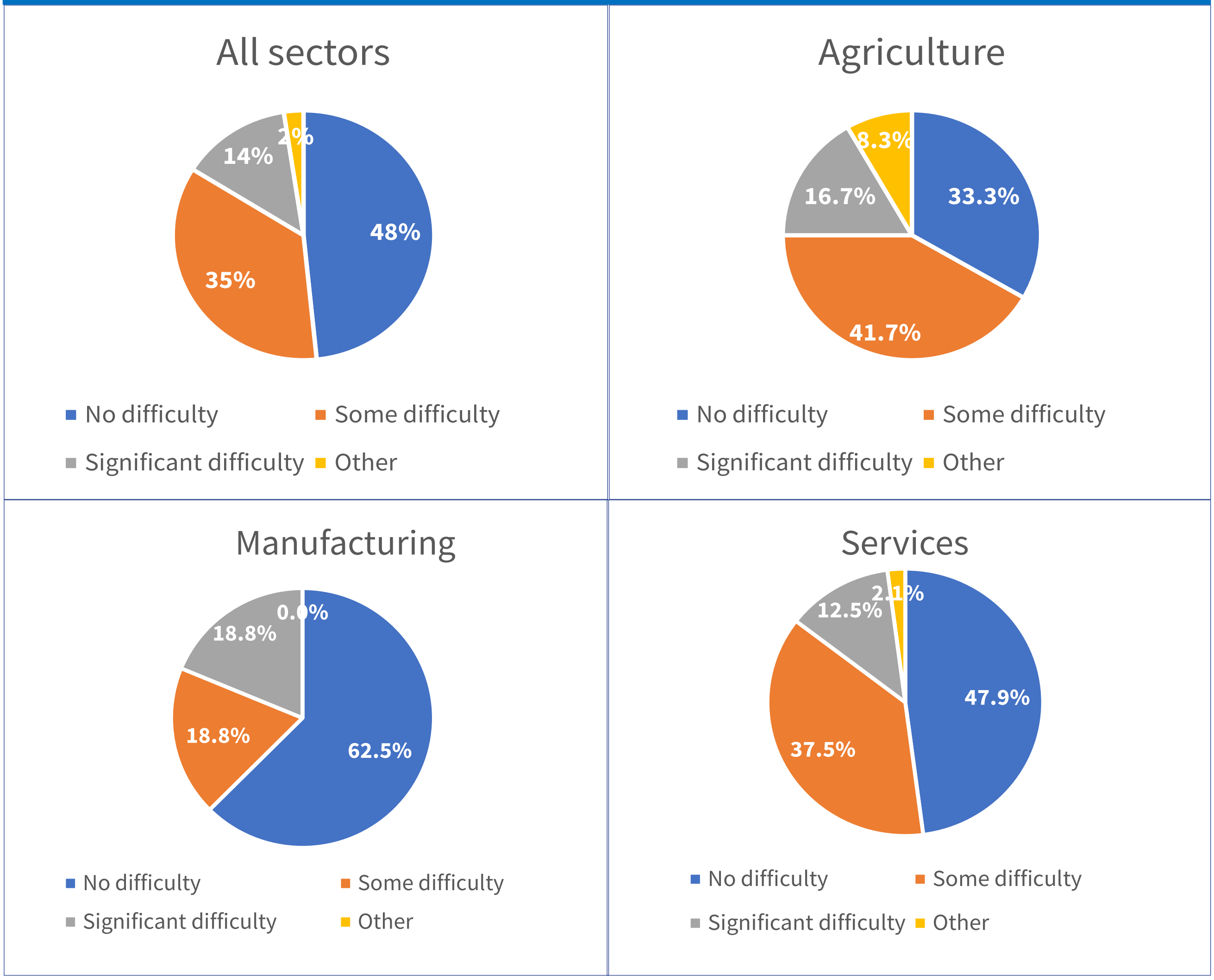
In the November 2024 Survey, the balance of opinion shows that a larger proportion of respondents expect slowed business activity in 2025 Q1 compared to 2024 Q4 **(Chart 11)**.

Chart 11: Expectations of business activity in 2025 Q1



The proportion of respondents facing difficulties and those not foreseeing any difficulties in meeting unexpected increase in demand were relatively balanced in the November 2024 survey. The respondents not facing any difficulties in expansion reported that they were currently operating below capacity and therefore did not foresee significant difficulties in meeting an unexpected increase in demand. Firms reported that a surprise increase in demand could be met through utilization of existing idle capacity. Moreover, firms reported existence of strong supply chains, which would facilitate access to inputs for production. In addition, many firms currently have carry-over stocks, resulting from subdued consumer demand **(Chart 12)**.

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

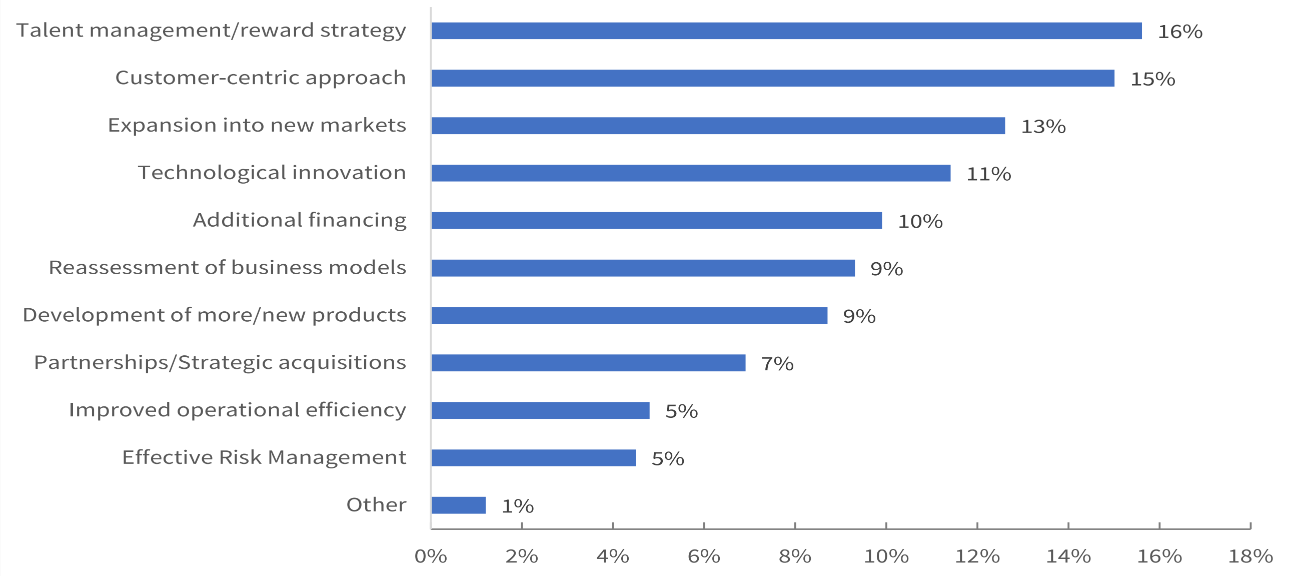


8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS

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

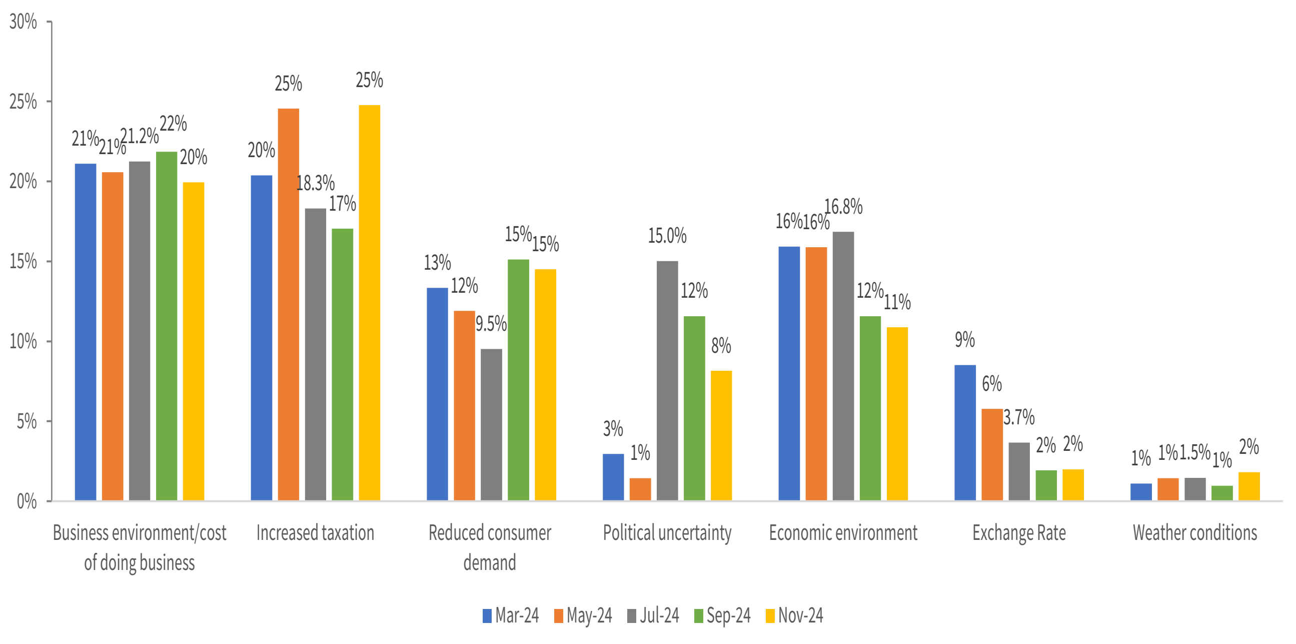
More respondents reported talent management, customer centricity and expansion into new markets as the key drivers of firms' growth over the next 12 months **(Chart 13)**.

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



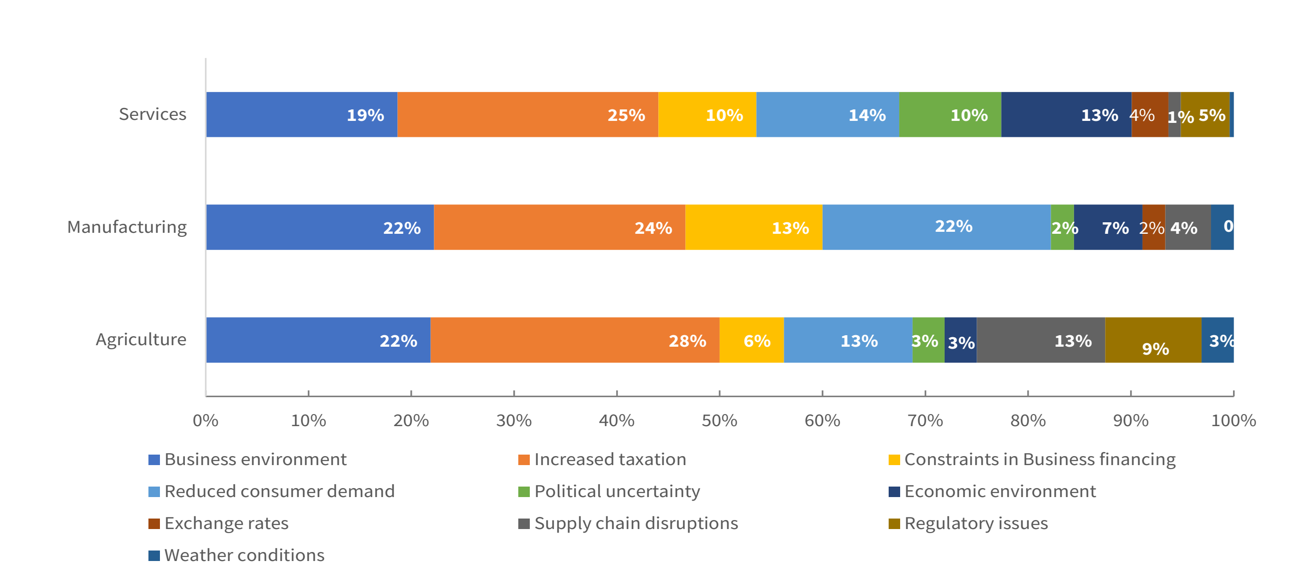
Increased taxation, cost of doing business and reduced consumer demand were reported as the key factors that could constrain firm's growth in the next 12 months **(Chart 14)**.

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



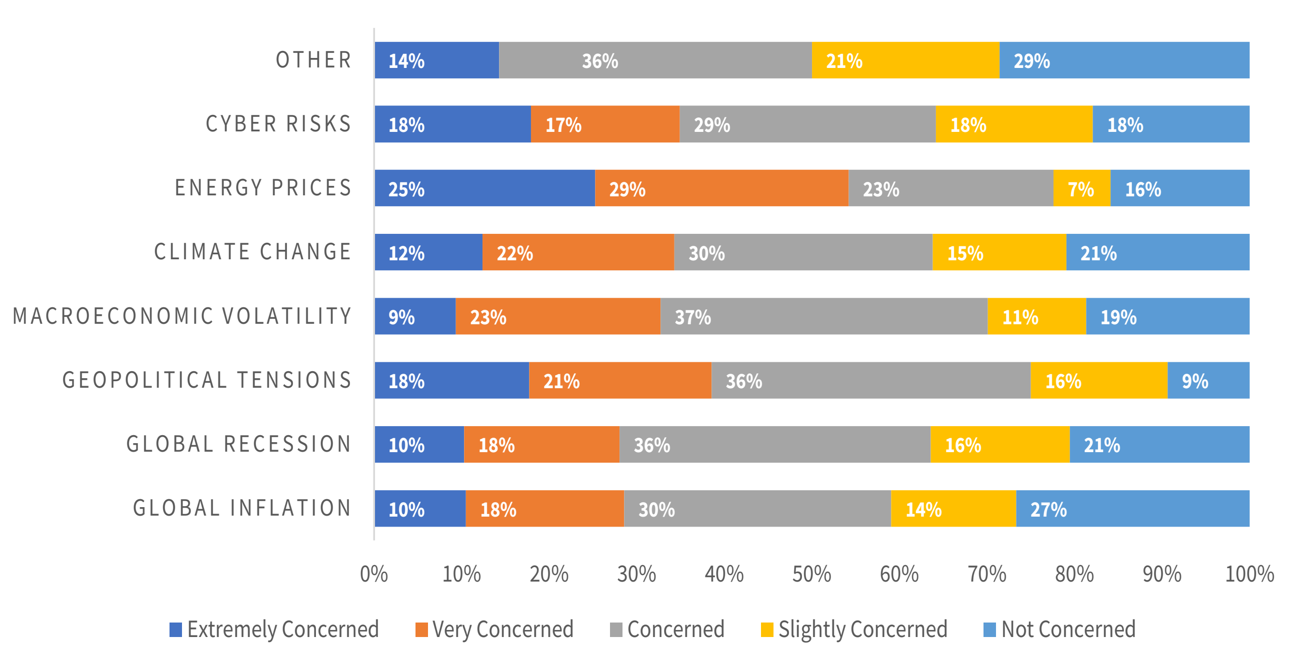
Moreover, supply chain disruptions were a key constraint in the agriculture sector, while access to financing was a major challenge for players in the manufacturing and services sector.In addition, economic environment and political uncertainty were reported as key constraining factors in the services sector **(Chart 15)**.

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)



Managing costs and risks, digitization, innovation and increased adoption of technology are some of the key strategies firms are using to mitigate the constraining factors to growth **(Chart 17&18)**.

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

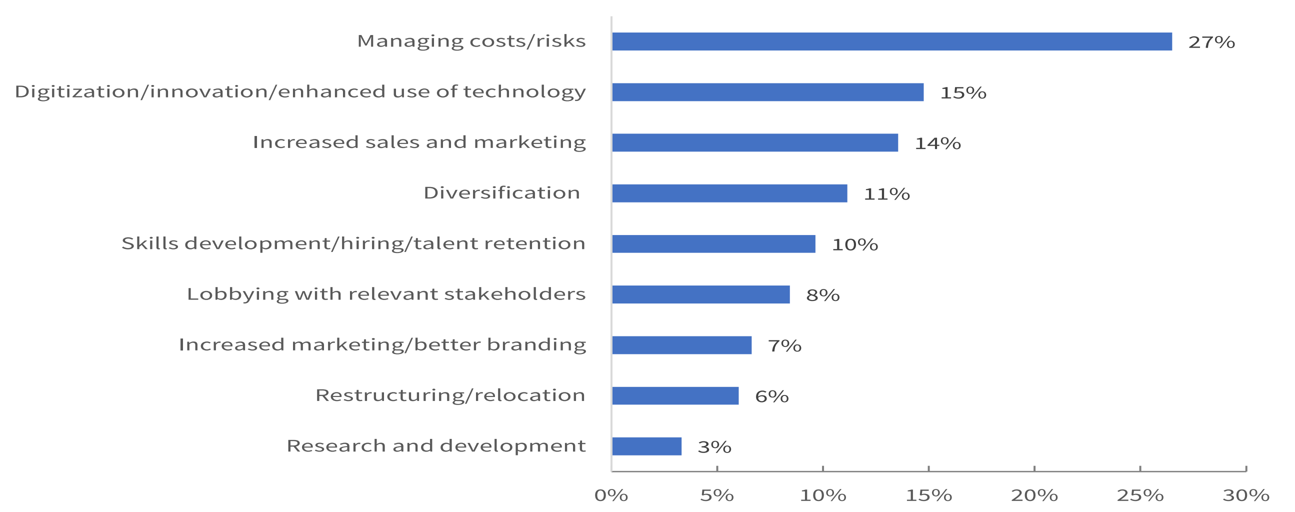
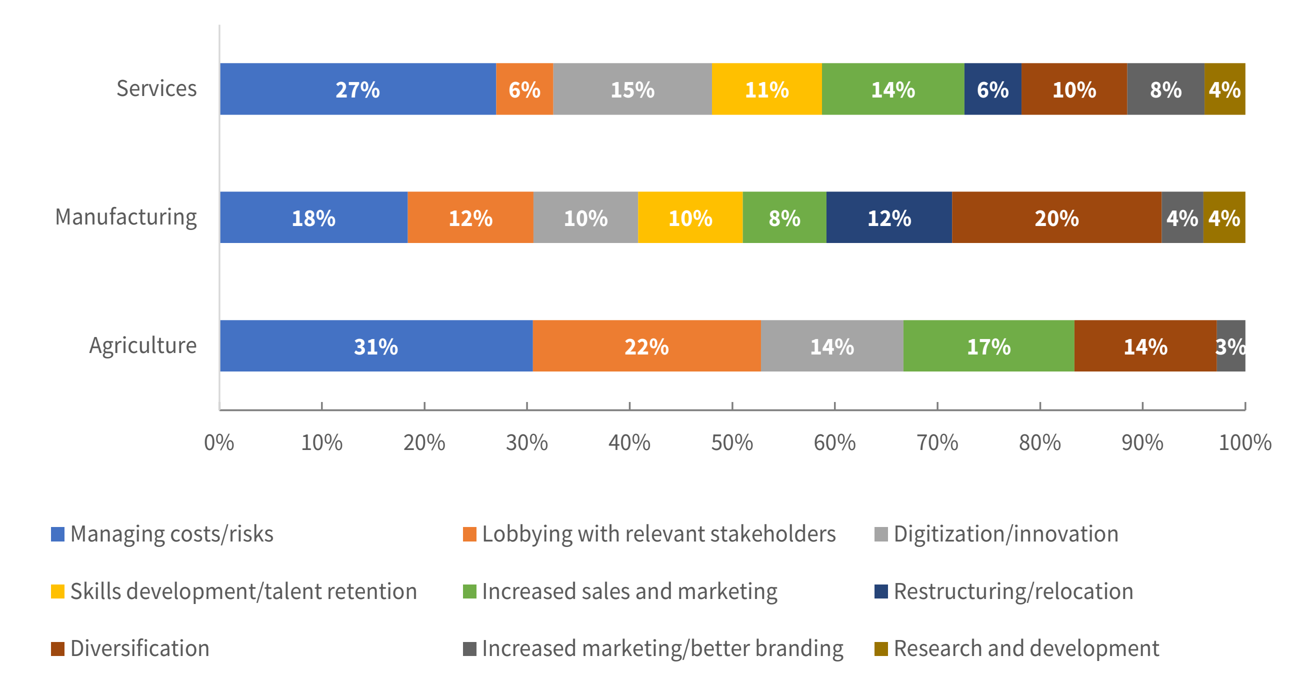


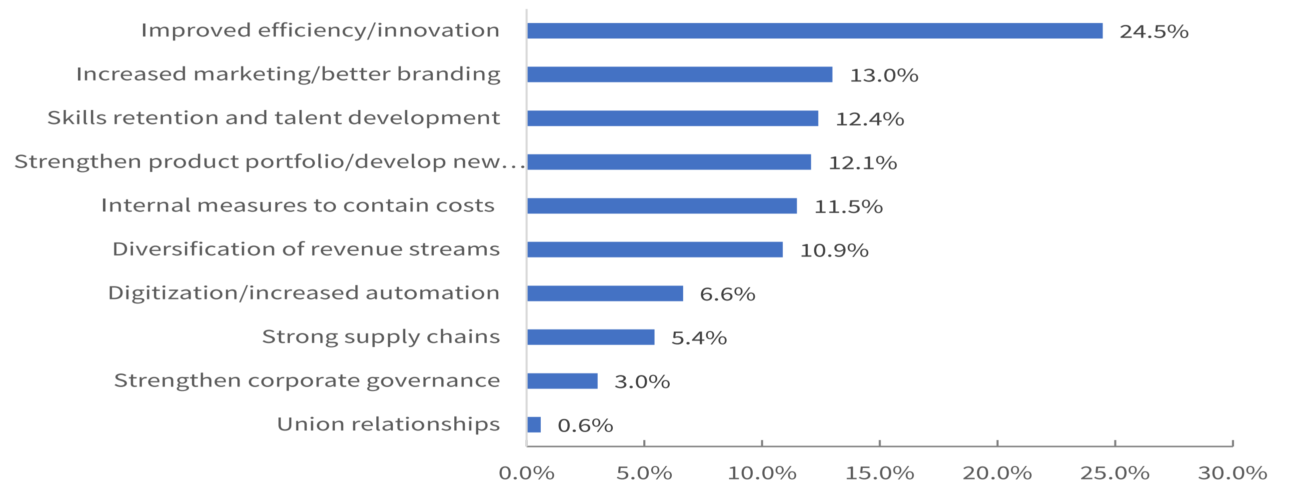
Chart 18: Firms' proposed solutions to factors constraining growth by sector (percent of respondents)



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

Improving efficiency and innovation, increased marketing and better branding and skills retention were reported 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)



More respondents highlighted an enabling business environment, stability in the economic environment, and certainty around taxation issues as 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)

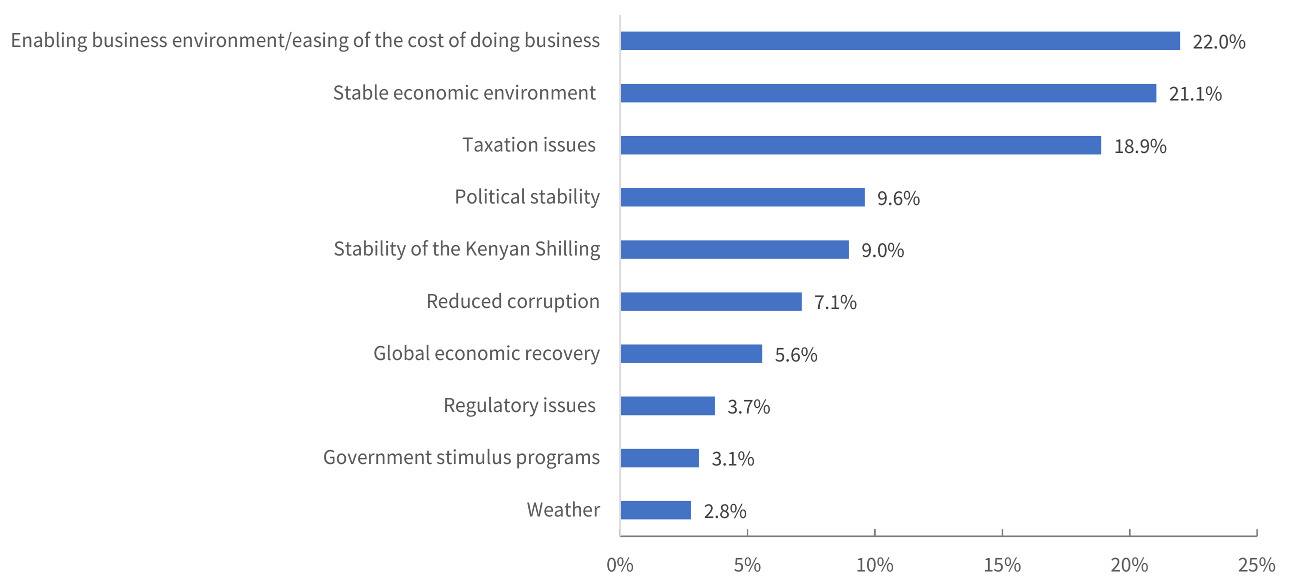
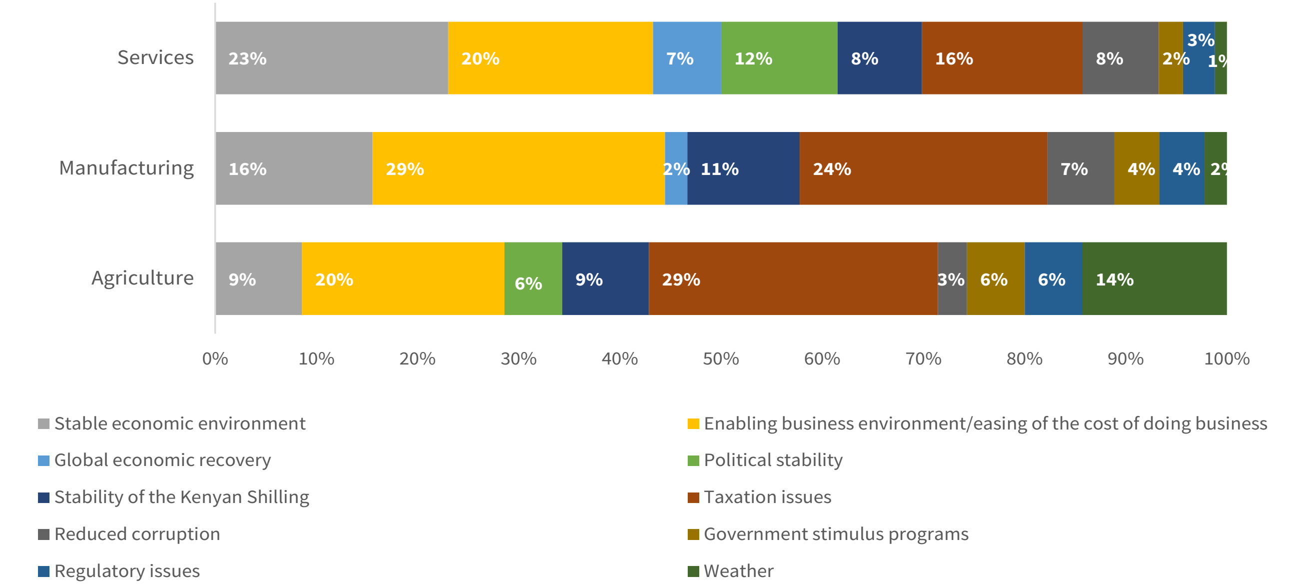


Chart 21: External factors that could strengthen firms' outlook by sectors (percent of respondents)



10. TOP COMPANY STRENGTHS

Trusted brands and product quality, technical capabilities and skilled workforce, and customer centricity were reported as the top company's areas of strengths **(Chart 22 & 23)**.

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

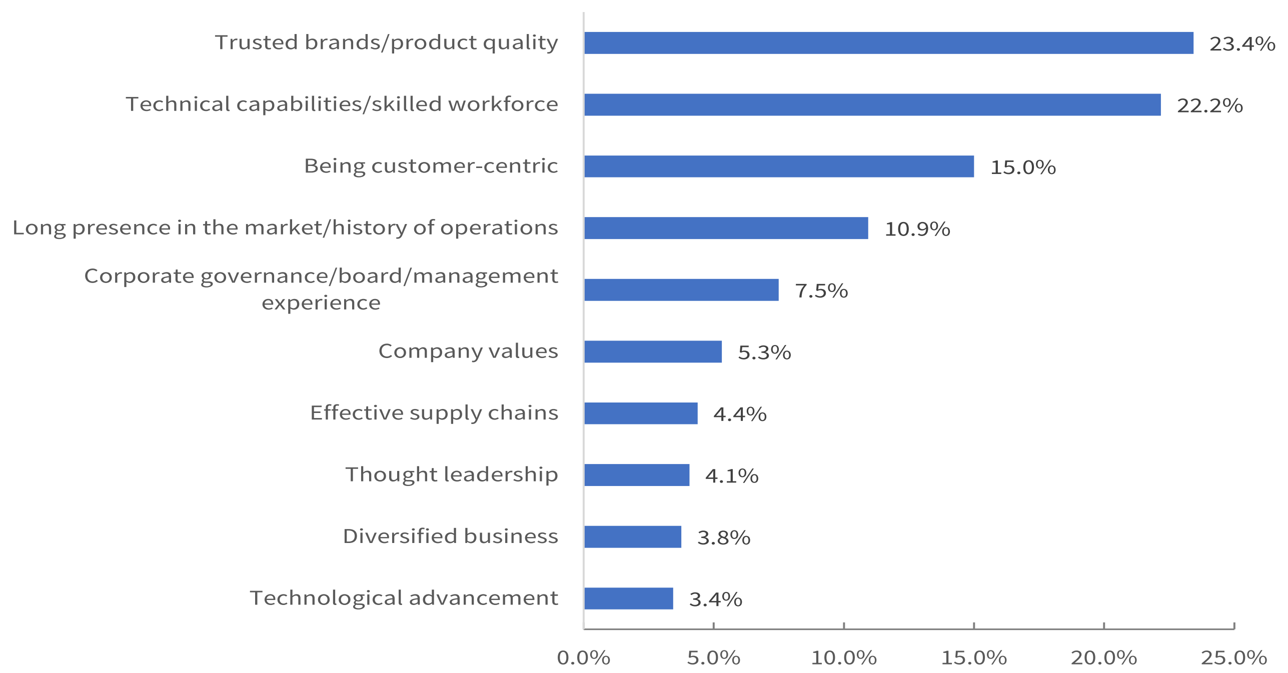
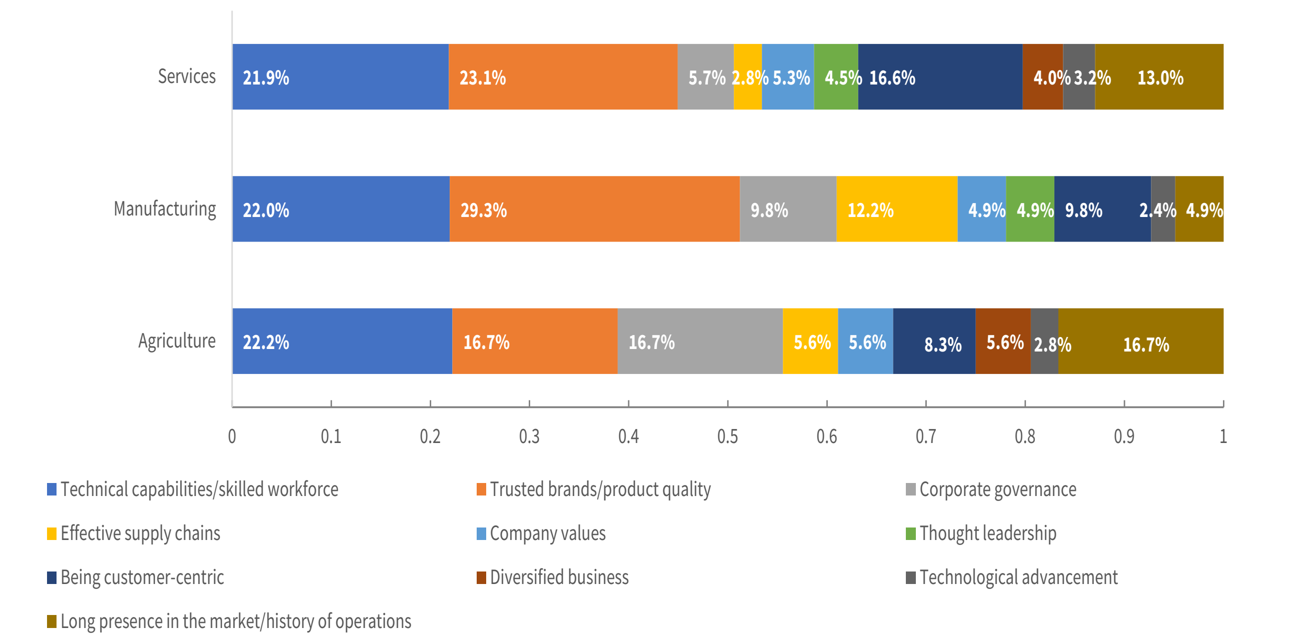


Chart 23: Firms' top strengths by sectors (percent of respondents)



11. STRATEGIC PRIORITIES

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)

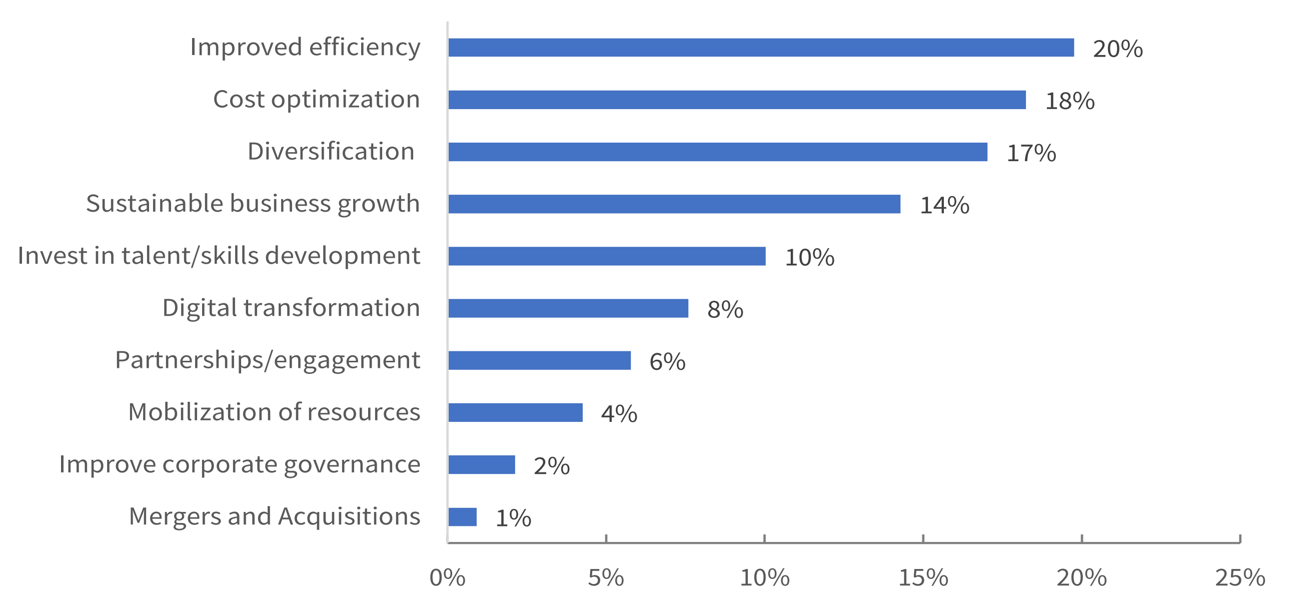
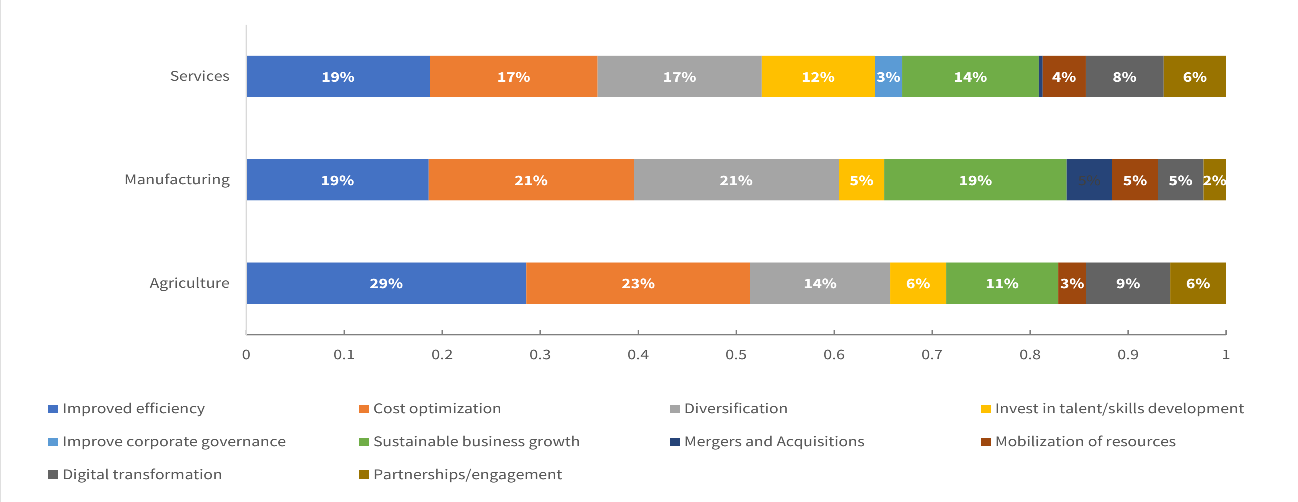


Chart 25: Firms' strategic priorities over the next three years by sector (percent of respondents)



12. CONCLUSION

The November 2024 CEOs Survey showed moderated optimism for Kenyan economic growth prospects over the next 12 months, driven by muted consumer demand, high cost of doing business and taxation. However, growth prospects during the period will be supported by a stable shilling, lower inflation, good weather prospects and expected declines in interest rates.

The survey showed higher growth prospects for companies driven by company specific strategies such as product diversification, customer centricity, internal measures to contain costs and expectations of enhanced access to financing due to the accomodative monetary policy stance. Growth prospects for some sectors such as maufacturing are lower largely on account of sector specific challenges.

More firms reported higher optimism for global growth prospects in the next 12 months, supported by lower global inflation and interest rates cuts in major economies. However, concerns around increased geopolitical tensions,expected change in policy by the new US administration, and an uptick in global food prices remain.

Firms reported improved business performance in 2024 Q4 relative to 2024 Q3, attributed to increased demand during the festive season. The balance of opinion shows expectations of lower business activity in 2025 Q1 compared to 2024 Q4 largely on account of seasonal factors.

The cost of doing business, increased taxation and reduced consumer demand are key domestic factors that could constrain firms' growth in the next 12 months. However, firms will mitigate the constraining factors by managing costs and risks, diversifying operations and increasing sales and marketing of their goods and services.

Trusted brands and product quality, skilled workforce, and customer centricity are the key firm's strengths, and firms are prioritizing improving efficiency, cost optimization and diversification of operations in the medium term.

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. Ensure the reduction of interest rates by CBK is transmitted to lower lending rates by commercial banks.
ii. Implement policies aimed at reducing the cost of doing business.
iii. Reduce tax rates, ensure certainty around taxation and fasten tax refunds.
iv. Provide incentives to businesses to support

activity as there is threat of business closure or relocation if operating costs remain high and consumer demand low.

v. Ensure availability of cargo freight services as exporters, especially of perishables, are facing challenges of limited freight capacity, despite high demand.
vi. Design training programs on corporate governance and business management to support effective business development.
vii. Tackle corruption in public institutions to avoid financial leakages.
viii. Fast-track settlement of pending bills as they impact business activity and ability to settle financial obligations to lenders.
ix. Support the manufacturing sector to enhance competitiveness.

Central Bank of Kenya

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