# TABLE OF CONTENTS

1. BACKGROUND .......................................................................................................................................................... 1
2. INTRODUCTION ........................................................................................................................................................ 1
3. SURVEY METHODOLOGY ........................................................................................................................................ 1
4. KEY HIGHLIGHTS OF THE SURVEY .......................................................................................................................... 1
5. BUSINESS CONFIDENCE/OPTIMISM OVER THE NEXT 12 MONTHS ................................................................. 2
6. BUSINESS ACTIVITY IN 2023 Q1 COMPARED TO 2022 Q4 ..................................................................................... 4
7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q2 COMPARED TO 2023 Q1 ............................................................ 7
8. FIRM EXPANSION AND GROWTH OVER THE NEXT 12 MONTHS ........................................................................ 8
9. FACTORS TO STRENGTHEN FIRMS’ OUTLOOK OVER THE NEXT 12 MONTHS ....................................................... 11
10. TOP COMPANY STRENGTHS .................................................................................................................................... 12
11. STRATEGIC PRIORITIES ........................................................................................................................................... 13
12. CONCLUSION ............................................................................................................................................................. 15

   ANNEX 1: CBK BUSINESS CONFIDENCE INDEX ....................................................................................................... 16
   ANNEX 2: 2023 Q1 PURCHASE PRICES .................................................................................................................... 17
   ANNEX 3: EXPECTATIONS OF 2023 Q2 BUSINESS ACTIVITY ................................................................................... 18
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 provides CBK a sharper picture of the evolving economy, complementing information from other sources, thereby facilitating better decision by the MPC.

The Survey seeks CEOs views/perceptions on selected indicators including business confidence and optimism, current business activity, and outlook for business activity in the near term. The Survey also seeks to establish the key 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 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 March 1 and 15, 2023. 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 2023 quarter one (Q1) compared to 2022 quarter four (Q4), and their expectations for economic activity in the second quarter of 2023 (Q2). The Survey also sought to obtain the significant factors likely to affect business expansion/growth in the next one year (March 2023 – February 2024), as well as the strategic directions and solutions to address their key constraining factors over the medium term (March 2023 – February 2025). 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 (20 percent), financial services (11 percent), professional services (11 percent), agriculture (10 percent), ICT and telecommunications (8 percent), health and pharmaceuticals (7 percent), transport and storage (5 percent), tourism, hotels and restaurants (5 percent), wholesale and retail trade (4 percent), mining and energy (4 percent), real estate (3 percent), building and construction (3 percent). Other sectors such as education, 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 and publicly listed domestic companies. Forty three percent of the respondents had a turnover of over Ksh 1 billion in 2019. In terms of employment, 50 percent of the respondents employed less than 100 employees, while 26 percent of the 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:

- Business optimism about company and sectoral growth prospects was tempered by concerns over domestic inflation, weakening of the Kenya Shilling, prolonged drought and cost of credit. However, some respondents remained optimistic about specific growth strategies that they have put in place to grow their firms. Firms in the professional services, manufacturing, tourism, ICT sectors also reported opportunities for growth in their respective sectors.

- Optimism regarding growth prospects for the Kenyan and global economy weakened. Optimism for Kenya's growth prospects was weighed down by domestic inflation, which has reduced consumer spending, weakening shilling and persistent drought. Respondents attributed their subdued optimism for growth of the global economy majorly to the lingering war in Ukraine, interest rate hikes in advanced economies and the effects of the collapsed banks in the U.S.
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. While respondents were more optimistic about the growth prospects for their own companies and sectors (Chart 1), optimism was tempered by concerns over domestic inflation, the weakening Kenya Shilling, prolonged drought and cost of credit. Nevertheless, some respondents remained optimistic citing specific growth strategies that they have put in place for their firms. Firms in the professional services, manufacturing, tourism, ICT sectors also reported opportunities for growth in their respective sectors. Optimism regarding growth prospects for the Kenyan economy weakened, weighed down by domestic inflation, which has reduced consumer spending. On the growth of the global economy, respondents attributed their subdued optimism majorly to the lingering war in Ukraine, interest rate hikes in advanced economies and the effects of the collapse of two banks in the U.S. The reduced optimism in growth prospects led to a fall in the Business Confidence Index (Annex 1).

Respondents reported reduced business activity in 2023 Q1 compared to 2022 Q4. Lower business activity was reported for firms in professional services, real estate and manufacturing sectors owing to domestic inflation, limited availability of foreign exchange and seasonal factors.

Surveyed firms expect business activity in 2023 Q2 to remain muted. While respondents expect inflation to ease in the near term, the cost of inputs notably electricity and farm inputs are expected to leave business activity essentially at the same level as in 2023 Q1. Nonetheless, increased government spending associated with the close of government financial year is expected to support business activity while seasonal factors may also support agriculture, transport and storage firms.

Customer centricity, expansion into new markets and talent management were identified as the key drivers of firms’ growth.

Respondents highlighted the economic environment (high inflation and the weakening Shilling) and the business environment (cost of doing business) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, global recession and energy prices as threats to their expansion. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, increased sales and marketing and digitisation of their operations.

A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms’ outlook in 2023.

---

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

![Chart showing growth prospects over the next 12 months]
The agriculture sector continued to report higher optimism for growth of their companies in the latest Survey compared to other sectors (Chart 2).

In the agriculture sector, respondents were more concerned about the prolonged drought which has resulted in the sixth season of failed rains thereby negatively impacting production. Respondents were constrained by the increased cost of farm inputs, which they have been unable to pass on to consumers due to already depressed demand. Sector players, nonetheless, appreciated the Government fertilizer subsidy program which was expected to boost agricultural production.

Majority of the respondents in the manufacturing sector, reported lower or the same growth prospects for their company and sector over the next 12 months. The respondents cited a significant increase in cost of production due to the weakening Shilling, constrained availability of foreign exchange for imports, increased labour costs as well as increasing electricity costs as factors that were expected to dampen growth. Additionally, respondents noted that consumer demand continued to reduce due to high inflation.

In the services sector, respondents highlighted that growth prospects for the EAC region were likely to be beneficial particularly for the ICT sector. Growth in the tourism and travel industry was also expected to benefit from seasonal factors, with forward bookings from the leisure market looking positive. Respondents in the healthcare sector reported positive growth prospects supported by the Government’s push for universal healthcare and the sector’s strategic positioning as an essential service provider. Nonetheless, the prolonged drought, rising cost of living and political undercurrents were cited as threats to the country’s growth prospects. On the global economy threats posed by the lingering war in Ukraine and the persistent inflation in advanced

<table>
<thead>
<tr>
<th>Chart 2: Sectoral Analysis of Growth Prospects over the next 12 months (percent of respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COMPANY GROWTH PROSPECTS</strong></td>
</tr>
<tr>
<td>Higher</td>
</tr>
<tr>
<td>JAN-23</td>
</tr>
<tr>
<td>AGRICULTURE</td>
</tr>
<tr>
<td>71.4%</td>
</tr>
<tr>
<td>50.0%</td>
</tr>
<tr>
<td>44.4%</td>
</tr>
<tr>
<td>18.2%</td>
</tr>
<tr>
<td>47.2%</td>
</tr>
</tbody>
</table>
6. BUSINESS ACTIVITY IN 2023 Q1 COMPARED TO 2022 Q4

The Survey sought CEOs’ perceptions on business activity in the first quarter of 2023 compared to the fourth quarter of 2022. Respondents reported mixed perceptions on business activity in 2023 Q1 compared to 2022 Q4. Demand/orders, production volumes and sales were higher or the same for firms in financial, security, and tourism sectors. Business activity remained largely the same for ICT, wholesale/retail trade firms while firms in professional services, real estate manufacturing reported subdued activity (Chart 3). Across all sectors, firms reported persistence of elevated prices of goods and services purchased.

Firms in the agriculture sector reported lower production due to the prolonged dry season hence a drop in production volumes. The weakening of the Kenya Shilling indirectly led to higher prices of goods sold for some respondents. Seasonal factors supported some firms to sell more but at lower prices. Overall, while purchase prices softened, inflation remained a key concern.

Firms in the manufacturing sector reported that market demand remained subdued. They reported that limited availability of the US Dollars had resulted in inability to source raw materials in a timely manner. Additionally, due to global and domestic inflation, several value chains had been affected leading to price increases hence reduced purchases.

In the services sector, firms reported an increase in business activity notably in the security, tourism and ICT sectors. Nonetheless, respondents rued the reduced consumer demand as well as limited availability of foreign exchange.

Chart 3: Business Activity in 2023 Q1 Compared to 2022 Q4 (percent of respondents)
In terms of sectoral demand in the first quarter of 2023, majority of agriculture sector firms reported demand/orders increasing or remaining largely the same. Additionally, production volumes were expected to increase following the onset of the rains (Chart 4).

Services sector firms reported higher sales growth compared to other sectors (Chart 5). This was attributed to increased demand particularly for financial and security services.

![Chart 4: Demand/Orders in 2023 Q1 Relative to 2022 Q4 by Sectors (percent of respondents)](chart4)

![Chart 5: Sales Growth in 2023 Q1 relative to 2022 Q4 by Sectors (percent of respondents)](chart5)
Respondents indicated that rising inflation and the impact of a weakening Shilling continued to affect purchase prices (Chart 6 and Annex 2).

![Chart 6: Purchase Prices in 2023 Q1 Compared to 2022 Q4 by Sectors (percent of respondents)](chart)

Production volumes were lower especially for majority of firms in the agriculture and manufacturing sectors due to inter alia, reduced consumer demand (Chart 7).

![Chart 7: Production volumes in 2023 Q1 Compared to 2022 Q4 by Sectors (percent of respondents)](chart)
7. OUTLOOK FOR BUSINESS ACTIVITY IN 2023 Q2 COMPARED TO 2023 Q1

The Survey sought CEOs expectations of business activity in the second quarter of 2023 relative to the first quarter. The CEOs reported that business activity is expected to mirror Q1 performance as economic conditions remain largely unchanged (Chart 8).

In terms of operating capacity, the Survey findings show that most respondents were operating below capacity and could increase production if there was an unexpected increase in demand/orders (Chart 9). Firms reported being well capitalized to meet demands hence capacity to scale up.

Firms which reported possible difficulty in expanding their operations cited the high cost of doing business, a constraining business environment and high cost of credit as the main reasons holding back their ability to expand. Other reasons cited included reduced consumer demand; financing challenges; internal operational constraints; and supply chain challenges.

Firms in the agriculture sector expect that adequate rainfall should help to manage short term risks even though purchase prices remain a big concern. Seasonal factors are also expected to support sales.

Businesses in the manufacturing sector anticipate a decline in sales and production due to increasing energy and electricity costs as well as a weakening Shilling.

Firms in the transport and storage anticipate a boost in demand/orders due to seasonal factors as do firms in the ICT sector. Nevertheless, purchase prices are expected to remain elevated for firms across all sectors (Annex 3).
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. The results show that customer centricity, talent management and expansion into new markets are the key drivers of firms’ growth over the next one year (Chart 10).

### Chart 10: Drivers of Firm Expansion (percent of respondents)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent management/reward strategy</td>
<td>15%</td>
</tr>
<tr>
<td>Expansion into new markets</td>
<td>14%</td>
</tr>
<tr>
<td>Customer-centric approach</td>
<td>14%</td>
</tr>
<tr>
<td>Technological innovation</td>
<td>11%</td>
</tr>
<tr>
<td>Additional financing</td>
<td>11%</td>
</tr>
<tr>
<td>Reassessment of business models</td>
<td>10%</td>
</tr>
<tr>
<td>Development of more/new products</td>
<td>8%</td>
</tr>
<tr>
<td>Partnerships/Strategic acquisitions</td>
<td>6%</td>
</tr>
<tr>
<td>Improved operational efficiency</td>
<td>6%</td>
</tr>
<tr>
<td>Effective Risk Management</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

In terms of domestic factors that could constrain their growth, respondents continued to highlight the economic environment (high inflation), the business environment (cost of doing business) and performance of the exchange rate (Chart 11).

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

- Business environment/cost of doing business: 17% (Sep-22), 19% (Nov-22), 18% (Jan-23), 20% (Mar-23)
- Increased taxation: 10% (Sep-22), 9% (Nov-22), 11% (Jan-23), 12% (Mar-23)
- Factors related to Covid-19: 0% (Sep-22), 1% (Nov-22), 0% (Jan-23), 0% (Mar-23)
- Reduced consumer demand: 13% (Sep-22), 16% (Nov-22), 14% (Jan-23), 14% (Mar-23)
- Political uncertainty: 2% (Sep-22), 1% (Nov-22), 4% (Jan-23), 1% (Mar-23)
- Economic environment: 20% (Sep-22), 20% (Nov-22), 18% (Jan-23), 16% (Mar-23)
- Exchange Rate: 10% (Sep-22), 12% (Nov-22), 14% (Jan-23), 16% (Mar-23)
- Weather conditions: 3% (Sep-22), 3% (Nov-22), 3% (Jan-23), 3% (Mar-23)
The economic environment was of greater concern for firms in the services sector. Firms in the manufacturing and agriculture sectors on the other hand were most concerned about the exchange rate and the business environment/cost of doing business, respectively. Other highly ranking concerns were reduced consumer demand, increased taxation and weather conditions (Chart 12).

The Survey also sought to establish the top external (non-domestic) threats impacting businesses. Respondents were most concerned about global inflation, energy prices and global recession (Chart 13). Agriculture sector firms were most concerned about climate change and energy prices while manufacturing and services sector firms were most concerned about energy prices and global inflation.
To mitigate the factors constraining growth/expansion, firms proposed various solutions: management of costs and risks, increased sales and marketing, and diversification of their operations (Chart 14).

Other important factors for respective sectors were skills development and talent management (services sector), increased sales and marketing (manufacturing sector) and lobbying with relevant stakeholders (agriculture sector) (Chart 15).
9. INTERNAL AND EXTERNAL FACTORS TO STRENGTHEN FIRMS’ OUTLOOK OVER THE NEXT 12 MONTHS

The Survey sought to establish internal and external factors that could strengthen firms’ outlook over the next 12 months. The Survey results highlighted improved efficiency and strengthening product portfolio as the main internal factors that could strengthen outlook across all sectors. Diversification of revenue streams as well as skills retention/talent development also continue to be important internal factors to strengthen outlook for majority of firms (Chart 16).

A sectoral analysis of the identified internal factors revealed that internal measures to control costs and increased marketing/better branding were other important factors for agriculture sector firms while strong supply chains and internal measures to contain costs were important factors for manufacturing sector firms. In the services sector, digitization and increased marketing/better branding were other important factors.

A stable economic environment, an enabling business environment and stability of the Kenyan Shilling were identified as top external factors across all sectors that businesses anticipate could strengthen their company outlook over the next 12 months (Chart 17).

**Chart 16: Internal Factors that could Strengthen Firms’ Outlook (percent of respondents)**

- Improved efficiency/innovation: 20%
- Strengthen product portfolio/develop new products: 15%
- Diversification of revenue streams: 15%
- Skills retention and talent development: 12%
- Increased marketing/better branding: 11%
- Internal measures to contain costs (restructuring, outsourcing etc.): 11%
- Digitization/increased automation: 7%
- Strong supply chains: 6%
- Strengthen corporate governance: 2%
- Union relationships: 1%

**Chart 17: External Factors that could Strengthen Firms’ Outlook (percent of respondents)**

- Stable economic environment: 23%
- Stability of the Kenyan Shilling: 22%
- Enabling business environment/easing of the cost of doing business: 16%
- Taxation issues: 10%
- Global economic recovery: 10%
- Political stability: 6%
- Reduced corruption: 6%
- Weather: 3%
- Regulatory issues: 3%
- Government stimulus programs: 3%
- Containment of the Covid-19 pandemic: 0%
Besides the top three factors identified in Chart 17, taxation issues were an equally important factor for all sectors (Chart 18).

10. TOP COMPANY STRENGTHS

The Survey required respondents to indicate their company’s strengths. Firms reported trusted brands/product quality, technical capabilities and customer centricity as their top strengths. Equally important is their history/length of presence in the market (Chart 19).
At the sector level, besides technical capabilities and trusted brands/product quality, customer centricity and long presence in the market were significant factors for firms in all sectors. Effective supply chains were also important for manufacturing and agriculture sector firms (Chart 20).

11. STRATEGIC PRIORITIES

The Survey concluded by enquiring of respondents their strategic priorities over the next three years. The Survey revealed that firms plan to diversify, improve efficiency and grow their businesses sustainably (Chart 21).
Other than the common factors identified across all sectors, firms identified cost optimization as another important factor (Chart 22).

![Chart 22: Firms' Strategic Priorities over the Next Three Years by Sector (percent of respondents)](chart)
12. CONCLUSION

The March 2023 CEOs Survey revealed tempered optimism about company and sectoral growth prospects. Optimism was moderated by concerns over domestic inflation, the weakening Kenya Shilling, prolonged drought and cost of credit. However, some respondents remained optimistic on account of specific growth strategies that they have put in place for their firms.

Optimism regarding growth prospects for the Kenyan and global economy weakened on the back of domestic inflation, which has reduced spending by Kenyan consumers. On the growth of the global economy, respondents attributed their subdued optimism majorly to the lingering war in Ukraine, interest rate hikes in advanced economies and the effects of collapsed banks in the U.S.

Business activity in 2023 Q1 was reported to be lower compared to 2022 Q4. Decreased business activity was reported for firms in professional services, real estate manufacturing sectors owing to domestic inflation, limited availability of foreign exchange and seasonal factors. Business activity is expected to remain at essentially the same level in 2023 Q2.

Nonetheless, increased government spending associated with the close of government financial year is expected to support business activity while seasonal factors may also support agriculture, transport and storage firms.

Customer centricity, expansion into new markets and talent management remain the key drivers of firms’ growth. In terms of constraining factors, respondents highlighted the economic environment (high inflation and the performance of the local currency) and the business environment (cost of doing business) as domestic factors that could constrain their growth in the near term. Externally, firms highlighted global inflation, recession fears and energy prices as threats to their expansion. Firms expect to mitigate these constraining factors through management of costs and risks, diversification of their businesses, increased sales and marketing and digitisation of their operations.

A stable macroeconomic environment, an enabling business environment and a stable Kenya Shilling were highlighted as factors that could strengthen firms’ outlook in 2023.
ANNEX 1: CBK BUSINESS CONFIDENCE INDEX
ANNEX 2: Q1 2023 PURCHASE PRICES
ANNEX 3: EXPECTATIONS OF Q2 2023 BUSINESS ACTIVITY