Quarterly Survey of Business Opinions and Expectations

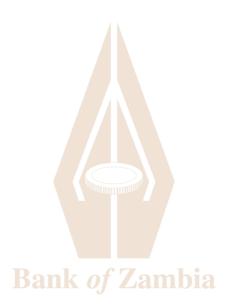# First Quarter 2022

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Bank *of* Zambia

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Summary

Economic performance was subdued in the first quarter of 2022 in line with expectations. This was largely attributed to the high cost of fuel, adverse effects of the Russia-Ukraine war and the continued threat from the COVID-19 pandemic. However, businesses expect economic activity to rebound in the second quarter with the onset of the agriculture marketing and tourism peak seasons. Economic outlook remains positive one year ahead mainly due to favourable policies of the new Government and optimism about the IMF approving an economic programme by June 2022.

1.0 Introduction

The Bank of Zambia Quarterly Survey of Business Opinion and Expectations (QSBOEs) assesses the perspectives of the business community about prevailing macroeconomic conditions in the review period and expectations for the quarter and the year ahead. This assessment forms part of monetary policy decisions.

This report presents findings from the Survey for the first quarter of 2022 and expectations for the second quarter of 2022 and 12 months ahead.

A total of 126 responses were received from 246 questionnaires administered. This represented a response rate of 51.2 percent, an improvement from the 46.8 percent recorded in the fourth quarter of 2021, as the operating environment improved following the reduction in COVID-19 cases and related restrictions relaxed (Chart 1).

Chart 1: Response Rate (%): 2020Q1-2022Q1

Source: Bank of Zambia

The highest number of responses were recorded in Lusaka and Central Provinces while the lowest was in Luapula Province (Table 1).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Lusaka	29	23.0
Central	25	19.8
Copperbelt	16	12.7
Southern	11	8.7
Eastern	11	8.7
Northern	11	8.7
Northwestern	10	7.9
Muchinga	8	6.3
Luapula	5	4.0
Total	126	100.0

Source: Bank of Zambia

The tourism sector continued to dominate the responses (40.5 percent) while there were no responses from the construction sector (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	51	40.5
Merchant	21	16.7
Manufacturing	19	15.1
Agriculture	19	15.1
Service	16	12.7
Construction	0	0.0
Total	126	100

Source: Bank of Zambia

The rest of the report is organised as follows: Section 2 presents opinions of firms about economic performance during the first quarter of 2022 as well as expectations for the second quarter and one year ahead. Section 3 provides opinions on input costs, wages, and prices. Section 4 presents macroeconomic prospects one year ahead while section 5 concludes. A description of the survey methodology is provided in the appendix.
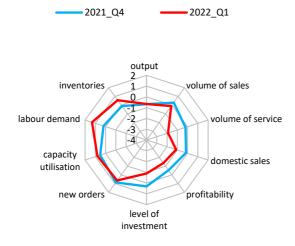
2.0 Current Economic Performance and Expectations

...economic performance fell in the first quarter

In line with expectations, economic performance slowed down in the first quarter of 2022 with volumes of sales and service,
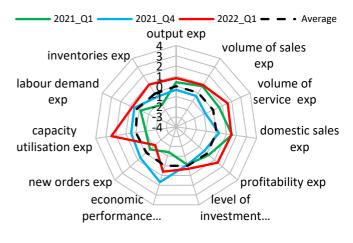
domestic sales, profitability, level of investment, and new orders declining (Chart 2A and 2B). This was accompanied by the accumulation of inventories. High energy costs, exacerbated by the Russia-Ukraine war, depreciation of the exchange rate, and relatively high inflation contributed to the decline in economic activity.

Chart 2A: Business Opinion Response Patterns*

Source: Bank of Zambia

Chart 2B: Business Opinion Response Patterns*

Source: Bank of Zambia

Nonetheless, firms expect economic activity to rebound in the second quarter with output, capacity utilisation, labour demand, volume of sales, volume of service, domestic sales,
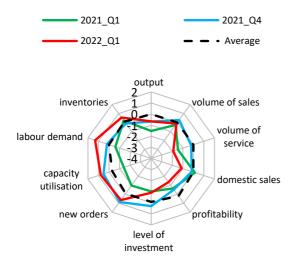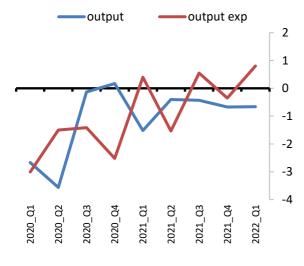
profitability, and level of investment rising above the first quarter level and long-term average. This is based on the commencement of the agricultural marketing and tourism peak seasons (Chart 3).

Chart 3: Business Expectations Response Patterns

Source: Bank of Zambia

Prospects for growth one year ahead remain positive. This is based on favourable policies of the new Government coupled with the possibility of the IMF Board approving an Extended Credit Facility (ECF) for Zambia later in the year.

2.1 What has been your firm's experience with respect to output?

(Net balance, -0.19; Q4 2021 -0.19)

Output marginally improved in the first quarter but remained below the long-term average. This was attributed to the commencement of soya beans and seed maize harvest (Chart 4).

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Chart 4: Opinion on Output

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

Chart 5: Level of Investment

Note: The line at zero (0.0) represents the long-term average
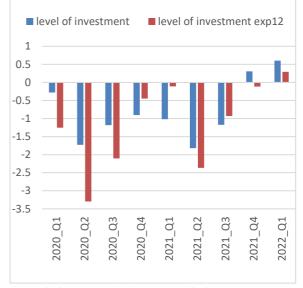Source: Bank of Zambia

Firms, especially in the agriculture sector, expect output to rebound in the second quarter with the commencement of tobacco ripping as well as soya beans and seed maize harvest following the above-normal rainfall in some areas.

2.2 How was your firm's level of investment?

(Net balance, 0.04;Q4 2021 0.00)

The level of investment is reported to have continued to rise in the first quarter and remained above the long-term average (Chart 5). Underlying this is mainly improved investor confidence in the policies of the new Government.

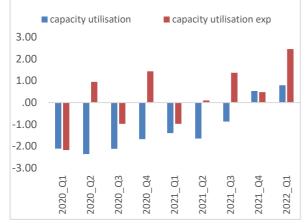The outlook for investment remains positive over the next 12 months as firms expect the macroeconomic environment to improve further on the back of favourable policies of the new Government coupled with the expected approval of an IMF Programme.

2.3 What has been your firm's experience with respect to capacity utilisation?

(Net balance, -0.06; Q4 2021 -0.09)

Capacity utilisation improved further in the first quarter and remained above the long-term average for the second consecutive quarter (Chart 6). Increased availability of some raw materials from the agriculture sector (soya beans and tobacco) relative to the previous quarter was behind the improvment.

Note: The line at zero (0.0) represents the long-term average
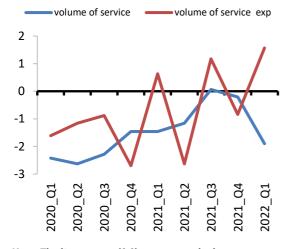**Source: Bank of Zambia**

Capacity utilisation is expected to remain high in the second quarter in light of the commencement of the agricultural marketing and peak tourism seasons.

2.4 What has been your firm's experience with respect to the volume of service?

(Net balance, -0.59; Q4 2021, -0.19)

The volume of service declined further in the first quarter and remained below the long-term average (Chart 7). This was mainly attributed to the seasonal decline in tourism activities exacerbated by threats of the COVID-19. In addition, the elevated cost of fuel as well as delays at ports and borders were disruptive to the transport sector.

Chart 7: Volume of Service

Note: The line at zero (0.0) represents the long-term average
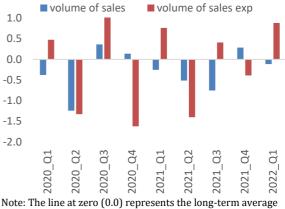**Source: Bank of Zambia**

However, the volume of service is expected to rebound, underpinned by the haulage of agricultural products and aggressive marketing of tourism services as COVID-19 restrictions are relaxed.

2.5 What has been your firm's experience with respect to the volume of sales?

(Net balance, -0.36; Q4 2021, -0.23)

The volume of sales deteriorated in line with expectations and fell below the long-term average (Chart 8). This was a reflection of subdued demand in the aftermath of the festive season.

Chart 8: Volume of Sales

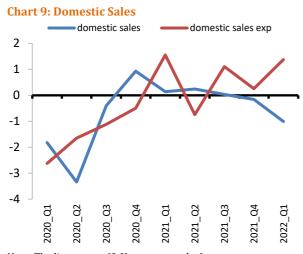Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

The volume of sales is however, expected to rebound in the second quarter, on anticipated improvement in economic activity with the commencement of the agricultural marketing season.

2.6 What has been your firm's experience with respect to domestic sales?

(Net balance, -0.28; Q4 2021, -0.11)

Domestic sales slowed down further in the first quarter (Chart 9). This was attributed to seasonal low consumer demand, COVID-19 induced supply constraints and excessive competition from cheaper imports.
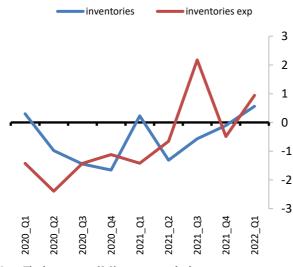
Chart 9: Domestic Sales

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

Domestic sales are expected to pick up in the second quarter of 2022, driven by the expected increase in consumer demand in light of the commencement of the agricultural marketing season.

2.7   What has been your firm's experience with respect to inventories?

Inventories increased in the first quarter, reflecting subdued demand in the aftermath of the festive season (Chart 10).

Chart 10: Level of inventories

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

In the second quarter, inventories are expected to increase to meet the expected recovery in sales during the agricultural marketing season.

2.8   How do you rate your firm's labour demand?

(Net balance, - 0.03; Q4 2021, -0.09)

Labour demand improved during the first quarter following the easing of COVID-19 restrictions in the latter part of the quarter (Chart 11).   Firms expect labour demand to rise further with the onset of agricultural marketing and peak tourism seasons.
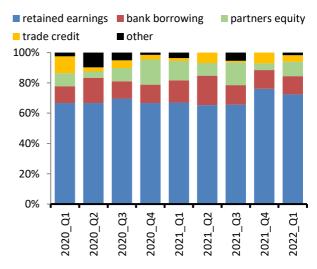
Chart 11: Labour Demand

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

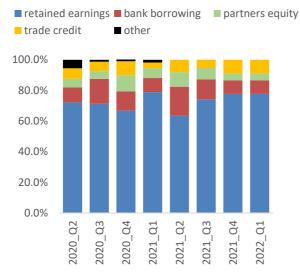## 2.9   What is your current main source of investment finance and working capital?

Retained earnings remained the main source of investment finance and working capital in the first quarter (Charts 12A and 12B).

Chart 12A: Sources of Investment Finance

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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Chart 12B: Sources of Working Capital

retained earnings   bank borrowing   partners equity
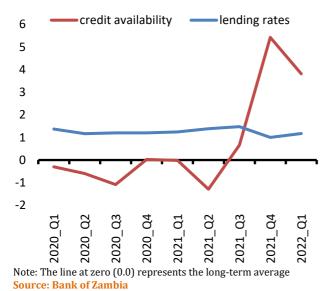trade credit   other

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

2.10 What is your perception of the current availability of credit?

(Net balance, -0.04; Q4 2021, 0.21)

Most firms reported tighter credit conditions in the first quarter compared with the previous quarter (Chart 13). This was attributed to high lending rates, credit risk environment occasioned by the persistence of COVID-19 and as funds in the Targeted Medium-Term Re-financing Facility (TMTRF) are exhausted.
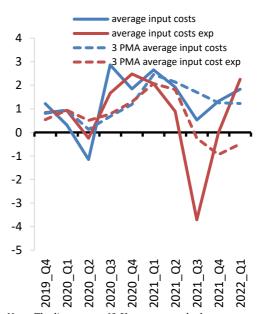
Chart 13: Credit Availability and Lending Rates

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

3.0 Evolution of Costs, Wages and Prices

3.1 What has been your firm's experience with average input costs?

(Net balance, 0.59; Q4 2021, 0.52)

Average input costs increased further during the first quarter, attributed to the upward adjustment of fuel pump prices (Chart 14). This is expected to continue in the second quarter.
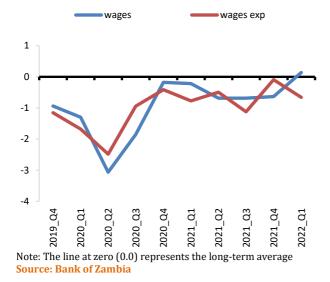
Chart 14: Average Input Costs

Note: The line at zero (0.0) represents the long-term average. Period Moving Average (PMA) is a 3-month moving average
Source: Bank of Zambia

3.2 What has been your firm's experience with respect to the wage bill?

(Net balance 0.15; Q4 2021, 0.8)

The wage bill marginally increased in the first quarter and was above the long-term average (Chart 15). Most companies indicated that the easing of COVID-19 restrictions explained the increase. This was complemented by annual wage adjustments. However, the wage bill is expected to drop in the second quarter of 2022 on account of increased use of machinery.
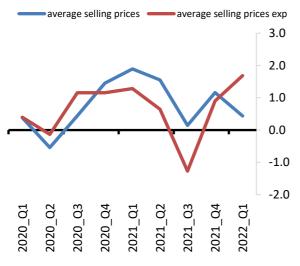
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Chart 15: Evolution of Wages

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

3.3 What has been your firm's experience with respect to average selling prices?

(Net balance, 0.11; Q4 2021, 0.25)

Average selling prices declined in the first quarter, reflecting subdued demand following the festive season but are expected to rise in the second quarter as firms anticipate higher operational costs linked to the upward fuel price adjustments and Kwacha depreciation. (Chart 16).
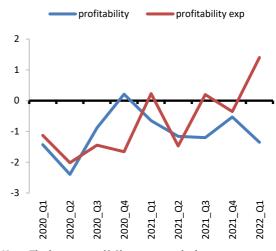
Chart 16: Evolution of Average Selling Prices

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

3.4 What has been your firm's experience with respect to profitability?

(Net balance, -0.44; Q4 2021, -0.35)

Consistent with the fall in the volume of sales and average selling prices, profitability declined in the first quarter (Chart 17). High operating costs induced by the upward fuel price adjustment also contributed to lower profits.

Chart 17: Profitability

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

However, profitability is expected to recover in the second quarter on the back of improved sales.
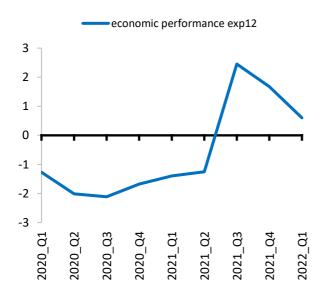
4.0 Macroeconomic Prospects One Year Ahead

4.1 What is your expectation of the performance of the economy in the next 12 months?

(Net balance, 0.39; Q4 2021, 0.66)

The outlook for growth one year ahead remains positive. This is premised on favourable policies of the new Government coupled with the possibility of the IMF Board approving the ECF.

Growth is, nonetheless, expected to be moderated by the adverse effects of the Russia-Ukraine war, increases in fuel pump prices, likely upward adjustment in electricity

tariffs following the completion of the cost of service study, and the persistence in uncertainty regarding the COVID-19 pandemic (Chart 18).

Chart 18: Economic Performance in the Next 12 Months

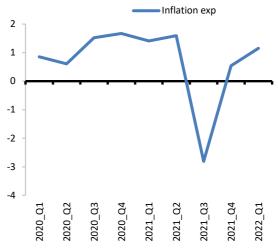

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

4.2 What do you expect the price level to be over the next quarter?
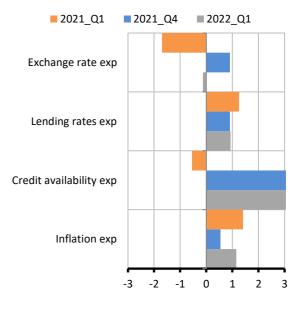
(Net balance, 0.70; Q4 2021, 0.54)

Firms expect inflationary pressures to persist in the second quarter despite a sustained declining trend in inflation since August 2021. (Charts 19 and 20). The partial removal of the fuel price subsidy coupled with the effects of the Russia-Ukraine war largely explain the expected inflationary pressures.

Chart 19: Inflationary Expectations Next Quarter

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

Chart 20: Inflation, Exchange Rates and Lending Rates Expectations

Notes:
Exchange rate = appreciation, strong (+)/depreciate, weak (-)
Lending rates = increase, high (+)/decrease, low (-)
Credit availability = tight (-)/ loose (+)
Inflation expectations = increase, high (+)/decrease, low (-)

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

Most businesses expect inflation to be in the 11-20 percent range (Table 3).

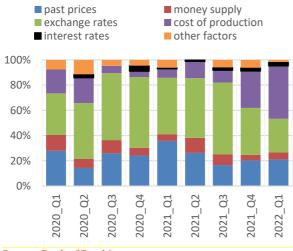**Table 3: Expected Inflation Rate at the end of the Next Quarter**

Inflation Rate

Range	Frequency	Percentage
1-5	1	1.4
6-10	6	8.1
11-15	29	39.2
16-20	28	37.8
21-25	6	8.1
26-30	0	0.0
31-35	4	5.4
36-40	0	0.0
Total	74	100.0

Source: Bank of Zambia

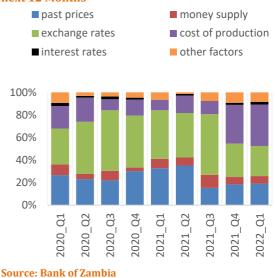## 4.3 What are the main factors explaining your expectations of inflation?

The key drivers include the higher cost of production, exchange rate depreciation, and past prices (Charts 21A and 21B).

Chart 21A: Key Drivers of Inflationary Expectations Next Quarter

Source: Bank of Zambia

Chart 21B: Key Drivers of Inflationary Expectations next 12 Months

Source: Bank of Zambia

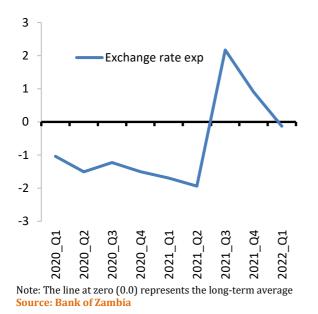## 4.4 How do you expect the performance of the Kwacha against the US dollar to be at the end of the next quarter?

(Net balance, -0.27 Q4 2021, 0.07)

The Kwacha is expected to remain weak in the second quarter and may depreciate upto K20 per US dollar due to higher global prices of fuel and food owing to the Russia – Ukraine war as well as effects of COVID-19. (Charts 20 and 22, and Table 4)

Table 4: Expected Exchange Rate at the end of the Next Quarter

Exchange Rate Range	Frequency	Percentage
6-10	2	2.7
11-15	6	8.1
16-20	55	74.3
21-25	11	14.9
Total	74	100.0

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

4.5 How do you expect credit availability to be over the next quarter?

(Net balance, -0.09; Q4 2021, 0.16)

Credit availability is expected to reduce in the second quarter (Charts 20 and 23) premised on an elevated credit risk environment occasioned by the persistence of COVID-19 and the depletion of the TMTRF.

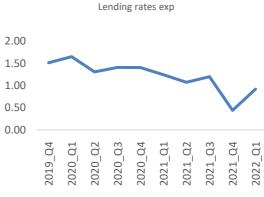**Chart 23: Credit availability expectations next quarter** [1]

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

4.6 What do you expect to happen to commercial bank lending rates over the next quarter?

(Net balance, 0.63; Q4 2021, 0.62)

Lending rates are expected to rise in the second quarter as the TMTRF was fully disbursed in the first quarter (Charts 20 and 24).

Chart 24: Interest rate expectations next quarter

Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

5.0 Conclusion

Economic performance was subdued in the first quarter in line with expectations. This was largely due to the high cost of fuel, adverse effects of the Russia-Ukraine war and the continued threat from the COVID-19 pandemic. This performance was, however, moderated by the improved investor confidence mainly attributed to the policies of the new Government and the possibility of the IMF Board approving the economic programme for Zambia.

In the second quarter, economic activity is expected to rebound owing to the onset of the agriculture marketing and tourism peak seasons. This may, however, be countered by the high energy cost and the effects of the Russia-Ukraine conflict as well as the possibility of increased COVID-19 infections during winter.

Firms expect the 12-month economic outlook to remain positive based on favourable policies of the new Government and optimism

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[1] Credit availability = tight (-)/ loose (+)

about the IMF Board approving an economic programme for Zambia.

Appendix – Survey Methodology

Data collection for the Quarterly Survey of Business Opinions and Expectations is done through a questionnaire designed to capture information on economic performance, sources of finance, and operational constraints for the current quarter as well as expectations for the following quarter and 12 months ahead. The questionnaire is administered to a sample of respondents in manufacturing, trading, tourism and services, construction, and agriculture sectors selected on the basis of their contribution to GDP.

The Survey covers the Copperbelt (Luanshya, Ndola, Kitwe and Chingola), Southern (Mazabuka, Choma, Kalomo and Livingstone), Central (Chisamba, Kabwe and Mkushi Farming Block), Eastern (Petauke, Chipata and Mfuwe), North-Western (Kasempa and Solwezi), Northern (Kasama, Mbala and Mpulungu), Muchinga (Mpika, Chinsali, Isoka and Nakonde), Luapula (Samfya and Mansa) and Lusaka (Lusaka and Kafue) Provinces.

Data analysis is based on net balance statistic (N) methodology where qualitative responses are converted into quantitative measures as follows:

$$N = \frac{U - D}{U + D + S}$$

where U, D and S represent the number of respondents indicating up, down and same, respectively.

The net balance statistic method is widely used in the analysis of survey data and has the advantage of detecting the directional changes in performance/expectations of respondents in surveys. It indicates the predominance of either an improvement or deterioration in a variable. A positive (negative) net percentage indicates that more respondents reported/expected an increase(decrease)/improvement (deteriorating) /tightening (loosening).