

Quarterly Survey of Business Opinions and Expectations

Fourth Quarter 2021



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Disclaimer:

The opinions and expectations presented herein are for the respondents and not of the Bank of Zambia



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Summary

Consistent with expectations, economic performance improved in the fourth quarter of 2021 on the back of enhanced investor confidence underpinned by the peaceful outcome from the August 2021 General Elections and increased consumer demand during the festive season. However, businesses anticipate economic conditions to deteriorate in the first quarter of 2022 due to the rise in energy prices and persistence in uncertainty associated with the COVID-19 pandemic. Firms are more optimistic about economic prospects over the next 12 months on account of the new Government economic policies.

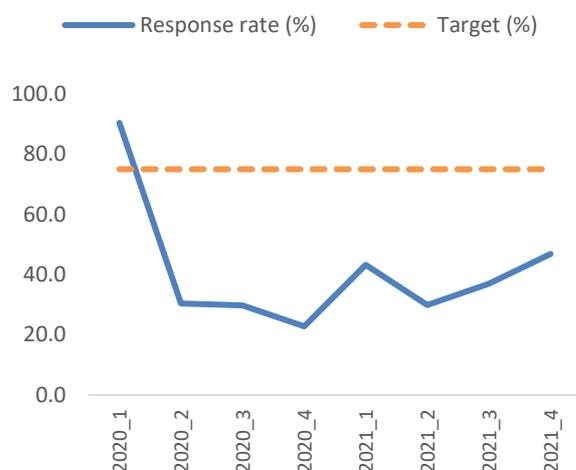
1.0 Introduction

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 of the Survey for the fourth quarter of 2021 and expectations for the first quarter of 2022 and 12 months ahead.

A total of 117 responses were received from 250 questionnaires administered. This represented a response rate of 46.8%, an improvement over the 37.0% recorded in the third quarter of 2021, mainly attributed to an extended collection period (Chart 1).

Chart 1: Response Rate (%): 2020Q1-2021Q4



Source: Bank of Zambia

The ongoing COVID-19 pandemic continues to prevent physical data collection, hence the low response rate. Consequently, these results should be interpreted with caution.

The highest number of responses were recorded in Lusaka and Copperbelt Provinces while the lowest was in North-Western Province (Table 1).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Lusaka	28	24
Copperbelt	26	22
Central	12	10
Northern	12	10
Eastern	11	9
Luapula	11	9
Southern	6	5
Muchinga	6	5
Northwestern	5	4
Total	117	100

Source: Bank of Zambia

The largest number of responses by sector was from tourism whereas construction had the least (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	42	36
Manufacturing	32	27
Merchant	22	19
Service	13	11
Agriculture	7	6
Construction	2	2
Total	117	100

Source: Bank of Zambia

The rest of this report is organised as follows: Section 2 presents opinions of firms about economic performance during the fourth quarter of 2021 as well as expectations for the first quarter of 2022 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 brief description of the survey methodology is provided in the appendix.

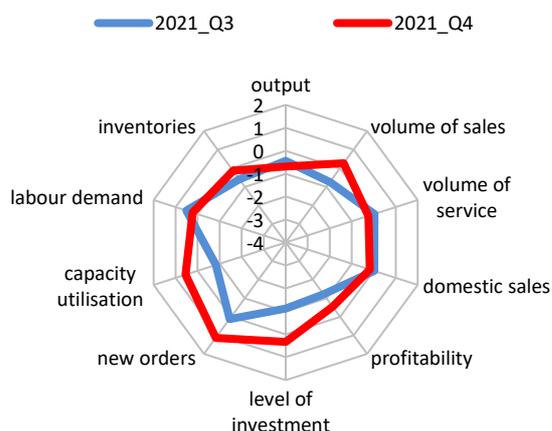
2.0 Current Economic Performance and Expectations

...Economic performance rebounds in fourth quarter

Consistent with expectations of a recovery, economic activity rebounded in the fourth quarter of 2021 and exceeded the performance in the same period in 2020. This was attributed to improvements in the level of investment, capacity utilisation, new orders, volume of sales, and profitability as investor confidence was boosted by the positive outcome of August 2021 General Elections and increased consumer demand during the festive season.

However, output, volume of service, domestic sales, and labour demand declined while inventories increased¹. This outturn was largely attributed to uncertainty in the business environment due to the fourth wave of the COVID-19 pandemic towards the end of the quarter, increased cost of fuel, higher volatility in the exchange rate, and relatively high inflation (Charts 2A and 2B).

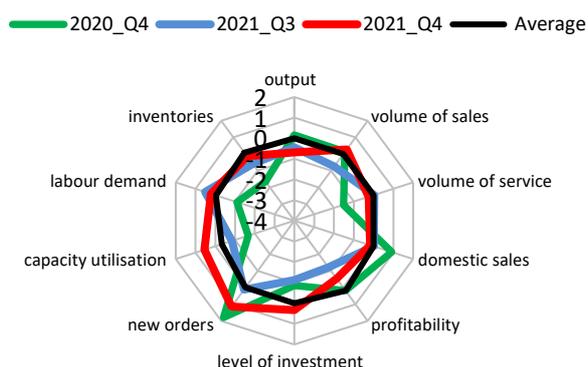
Chart 2A: Business Opinion Response Patterns*



Source: Bank of Zambia

¹ An increase in inventories suggests a slowdown in economic activity.

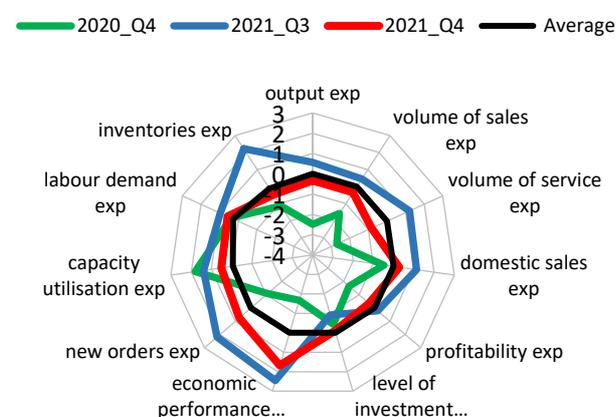
Chart 2B: Business Opinion Response Patterns*



Source: Bank of Zambia

Business houses are anticipating economic activity to slow down in the first quarter of 2022 mainly due to the increase in fuel prices, expected increases in electricity tariffs, and the persistence of uncertainty regarding the COVID-19 pandemic (Chart 3).

Chart 3: Business Expectations Response Patterns



Source: Bank of Zambia

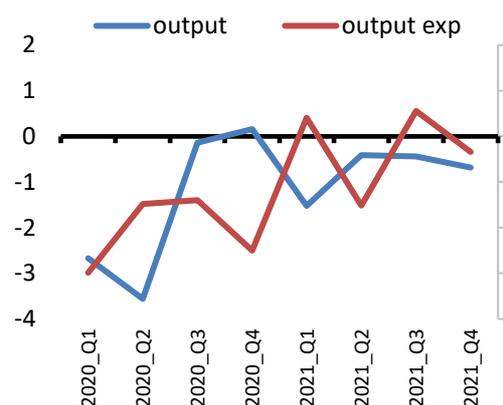
Nonetheless, growth prospects one year ahead remain positive although not as buoyant as expected in the previous quarter. This is based on new Government economic policies that are expected to create more opportunities for businesses.

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

(Net balance, -0.19; Q3 2021 -0.15)

Output declined further in the fourth quarter and remained below the long-term average. This was mainly due to seasonal low demand and high cost of production in the manufacturing and agriculture sectors (Chart 4).

Chart 4: Opinion on Output



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

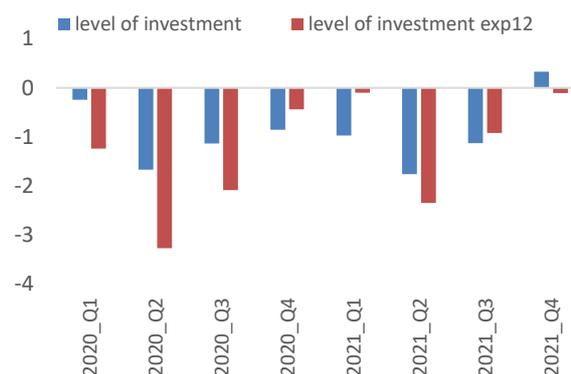
Businesses expect output to decline in the first quarter of 2022 mainly due to continued seasonal low demand and high cost of production in the manufacturing and agriculture sectors.

2.2 How was your firm's level of investment?

(Net balance, 0.00; Q3 2021 -0.22)

The level of investment rebounded in the fourth quarter and exceeded the long-term average (Chart 5). This was largely attributed to improved investor confidence following a peaceful transition of Government in August 2021.

Chart 5: Level of Investment



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

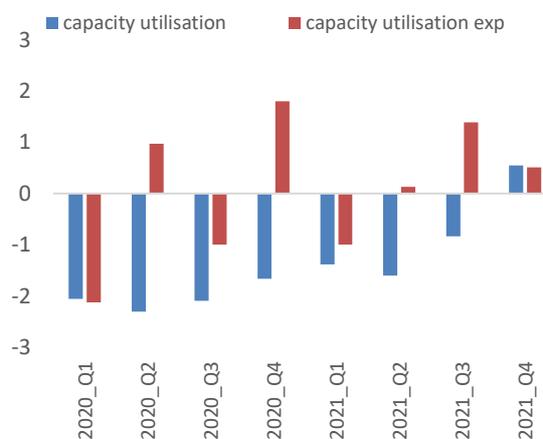
The level of investment is expected to continue to improve over the next 12 months premised on firms' anticipated expansion in production in response to the positive economic outlook in the wake of the Staff Level Agreement reached with the IMF on December 3, 2021.

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

(Net balance, -0.09; Q3 2021 -0.33)

Capacity utilisation rebounded strongly in the fourth quarter and exceeded the long-term average (Chart 6). This was stimulated by new orders to meet improved sales during the festive season.

Chart 6: Capacity Utilisation



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

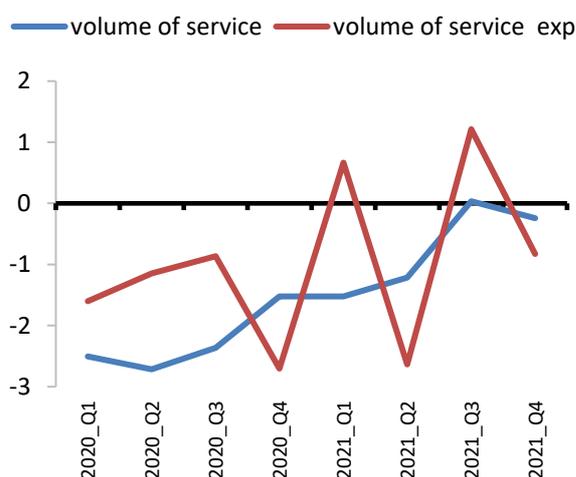
Capacity utilisation is expected to decline in the first quarter of 2022 owing to the anticipated scarcity of raw materials during this period coupled with the high cost of production.

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

(Net balance, -0.19; Q3 2021, -0.13)

The volume of service declined in the fourth quarter and was below the long-term average (Chart 7). This was mainly attributed to the fall in tourism activities underlined by threats of the fourth wave of the COVID-19 pandemic towards the end of 2021.

Chart 7: Volume of Service



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

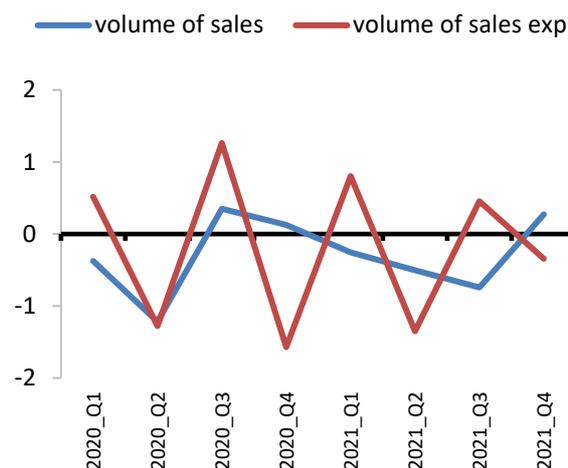
The volume of service is expected to fall in the first quarter of 2022 as the COVID-19 pandemic persists.

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

(Net balance, -0.23; Q3 2021, -0.58)

The volume of sales improved during the fourth quarter and exceeded the long-term average (Chart 8). This was largely explained by seasonal demand during the festive period.

Chart 8: Volume of Sales



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

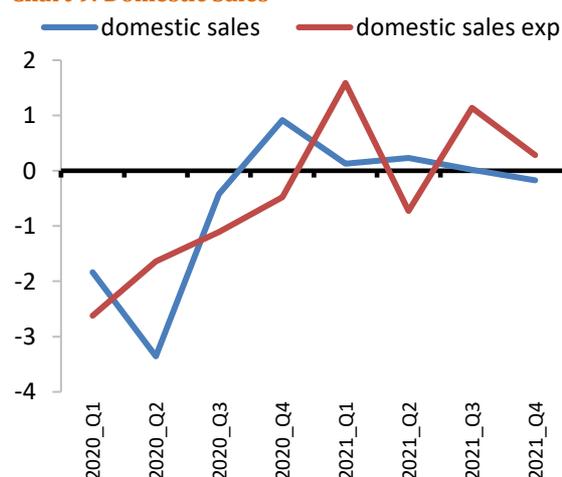
The volume of sales is, however, expected to decline in the first quarter of 2022 owing to low demand following the festive season.

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

(Net balance, -0.11; Q3 2021, -0.07)

Domestic sales slowed down further in the fourth quarter (Chart 9). This was largely attributed to adverse competition from cheaper imported goods and relatively low consumer demand for agricultural products.

Chart 9: Domestic Sales



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

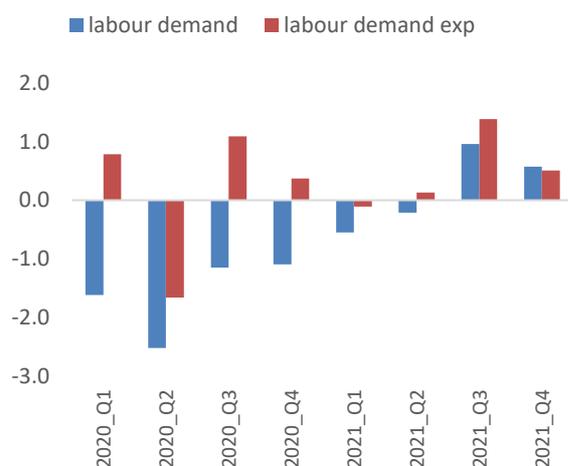
Domestic sales are expected to underperform in the first quarter of 2022 as cheaper imported goods are preferred by clients.

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

(Net balance, - 0.09; Q3 2021, -0.04)

Labour demand decelerated in the fourth quarter but remained above the long-term average (Chart 10). The persistence of the COVID-19 pandemic (i.e. emergence of the new Omicron variant) underpinned the slowdown in labour demand.

Chart 10: Labour Demand



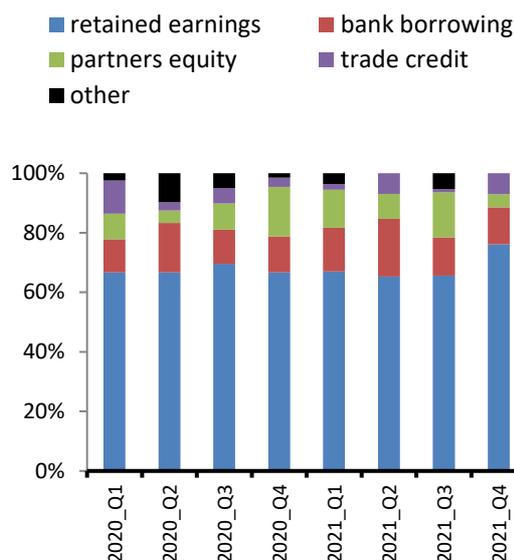
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

In the next quarter, firms expect labour demand to reduce further due to the high cost of production.

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

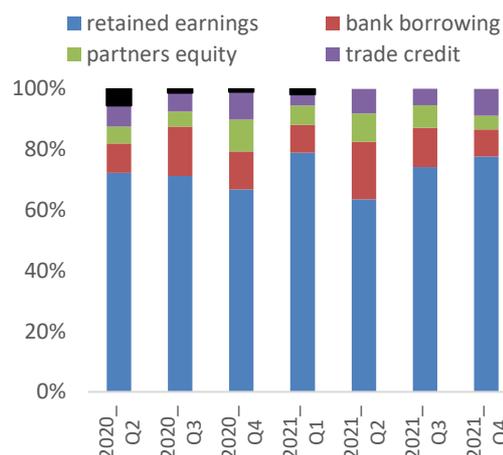
The main source of investment finance and working capital in the review period remained predominantly retained earnings (Charts 11A and 11B).

Chart 11A: Sources of Investment Finance



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

Chart 11B: Sources of Working Capital



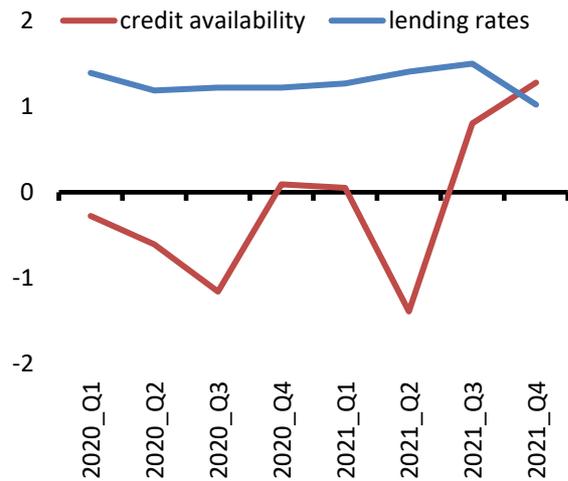
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.21; Q3 2021, -0.52)

Firms indicated that credit availability continued to improve during the fourth quarter of 2021 supported by lower lending rates (Chart 12). The post-election optimism, suggesting that Government borrowing would be better managed, largely continued to resonate with businesses, hence the improvement.

Chart 12: Credit Availability and Lending Rates



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

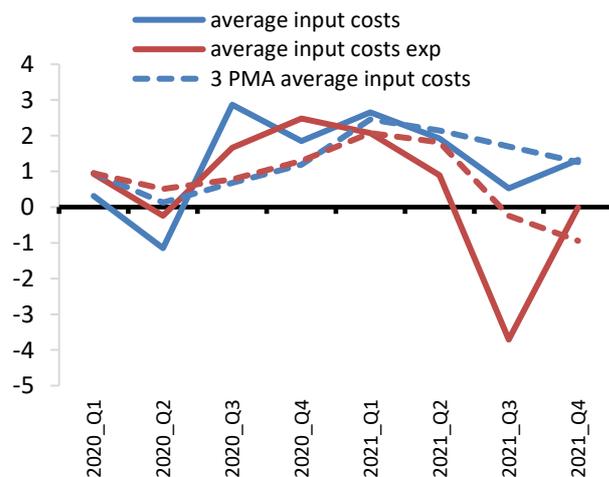
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 1.3; Q3 2021, 0.52)

Average input costs increased in the fourth quarter of 2022 as the upward adjustment in fuel pump prices impacted operational costs (Chart 13). Firms expect the second round effects of the fuel price hike to manifest in the first quarter of 2022.

Chart 13: Average Input Costs



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

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

(Net balance 0.8; Q3 2021, 0.8)

The wage bill marginally increased in the fourth quarter, but remained below the long-term average. Most companies indicated that business conditions had not changed significantly to warrant high wage adjustments (Chart 14). The wage bill is expected to rise in the first quarter of 2022 on the back of annual wage revisions linked to the rising cost of living.

Chart 14: 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?

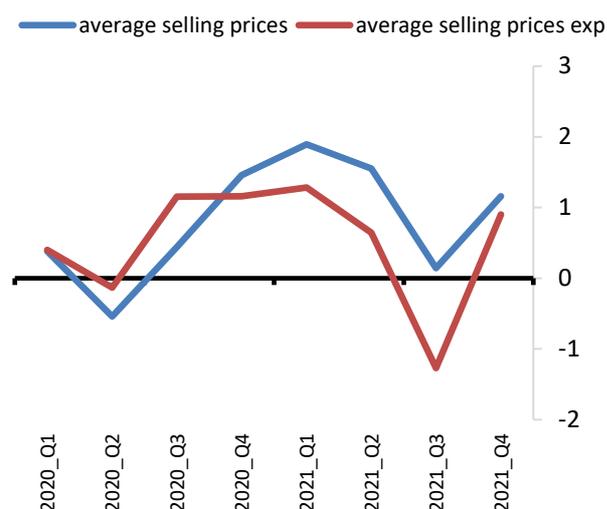
(Net balance, 0.25; Q3 2021, 0.07)

Average selling prices rose in the fourth quarter, reflecting increased operational costs and supply constraints for some inputs² (Chart 15).

Average selling prices are expected to continue rising in the first quarter of 2022 as firms anticipate higher operational costs linked to fuel and electricity tariff adjustments.

² Some firms in the agricultural sector indicated global shortage of soybeans and wheat.

Chart 15: Evolution of Average Selling Prices



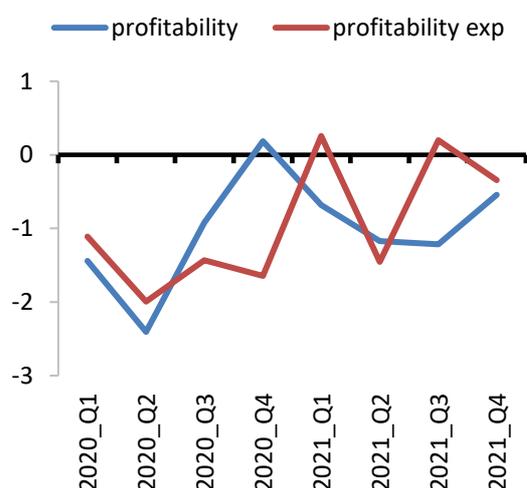
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

(Net balance, -0.35; Q2 2021, -0.52)

Profitability improved in the fourth quarter as a result of the increase in the volume of sales mainly triggered by higher demand during the festive season (Chart 16).

Chart 16: Profitability



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

In the first quarter of 2022, however, profitability is expected to decline on account of low demand following the festive season and the second round effect of the fuel price hike in December 2021.

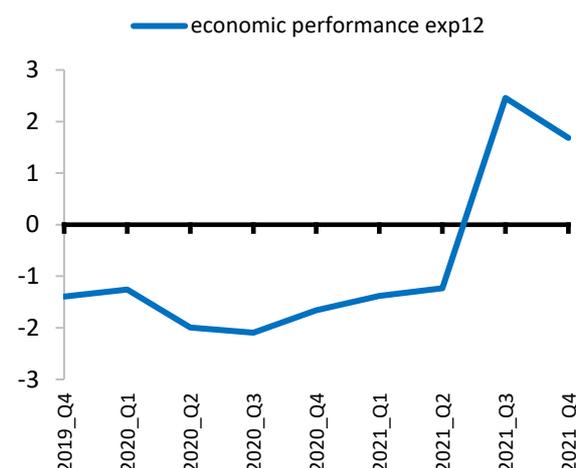
4.0 Macroeconomic Prospects One Year Ahead

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

(Net balance, 0.90; Q3 2021, 0.66)

Economic performance one year ahead remains positive as new Government economic policies are expected to improve prospects for growth. However, growth is not anticipated to be as buoyant as indicated in the third quarter. The rise in fuel prices, expected increases in electricity tariffs, and the persistence in uncertainty regarding the COVID-19 pandemic explain this (Chart 17).

Chart 17: Economic Performance in the Next 12 Months



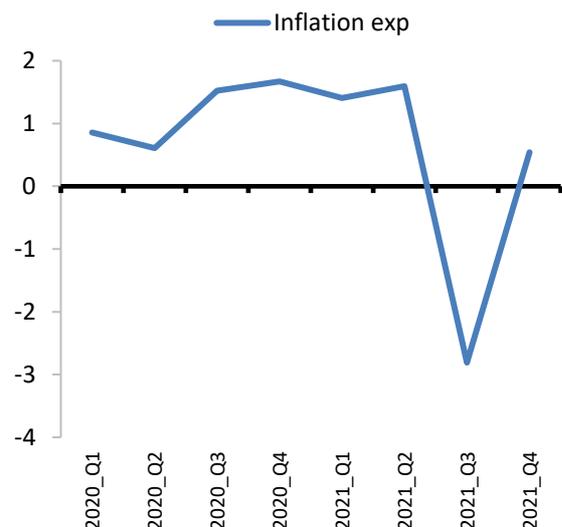
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

4.2 What do you expect the price level to be over the next quarter?

(Net balance, 0.54; Q3 2021, -0.32)

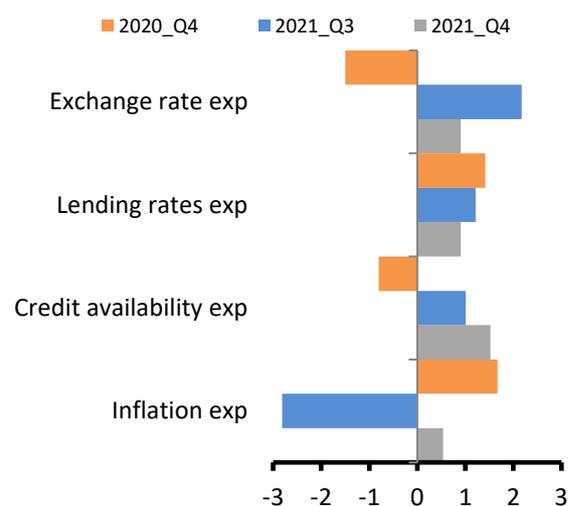
Inflationary pressures are expected to increase owing to increased production costs attributed to the upward revision of energy tariffs (Charts 18 and 19).

Chart 18: Inflationary Expectations Next Quarter



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

Chart 19: 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 predicted inflation to lie in the range of 16-20 per cent (Table 3).

Table 3: Expected inflation rate at the end of the next quarter

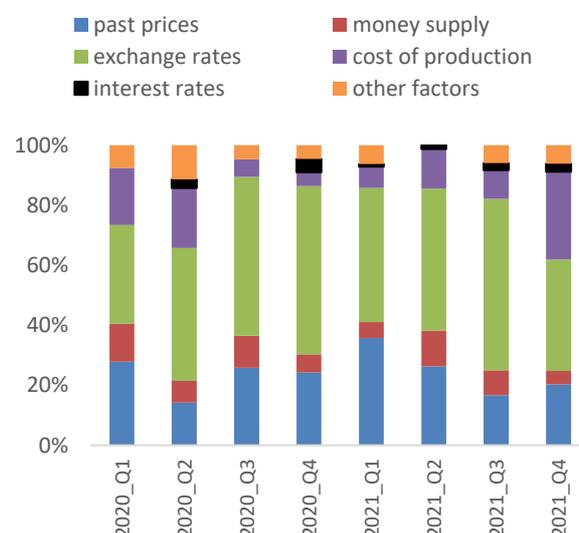
Inflation Rate	Frequency	Percent
Range		
1-5	6	5
6-10	22	19
11-15	13	11
16-20	34	29
21-25	6	5
36-40	1	1
No Response	35	30
Total	117	100

Source: Bank of Zambia

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

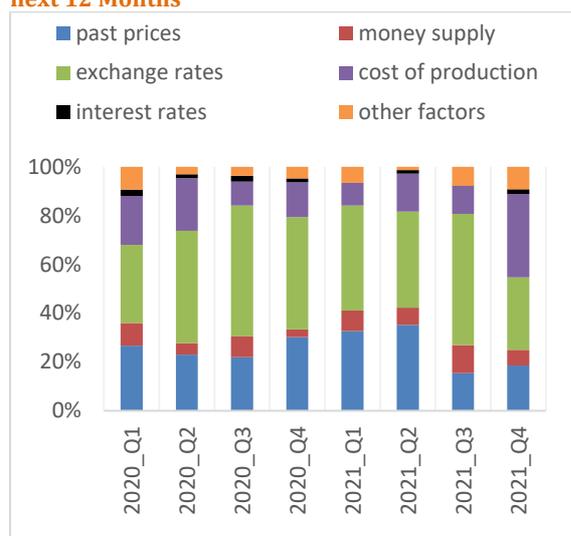
The key drivers of higher inflationary expectations in the first quarter and a year ahead include the exchange rate, past prices, and cost of production (Charts 20A and 20B).

Chart 20A: Key Drivers of Inflationary Expectations Next Quarter



Source: Bank of Zambia

Chart 20B: Key Drivers of Inflationary Expectations next 12 Months



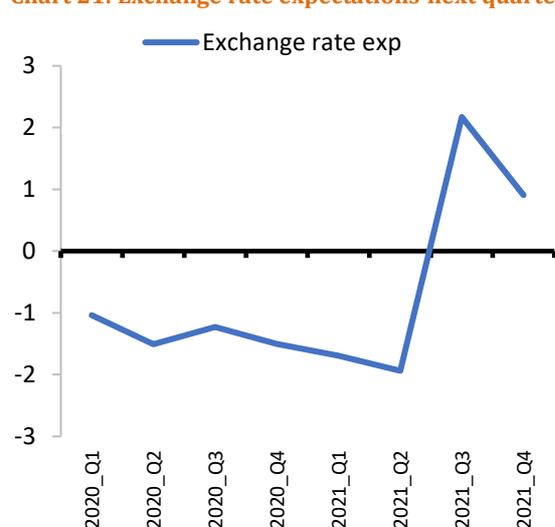
Source: Bank of Zambia

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, 0.07 Q3 2021, -0.48)

Most businesses expect the Kwacha to depreciate during the first quarter of 2022 to between K16 and K20 per US dollar compared to the K11 - K15 range expected in the fourth quarter (Charts 19 and 21, and Table 4). Foreign debt service remains the primary reason for the depreciation.

Chart 21: Exchange rate expectations next quarter



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

Table 4: Expected exchange rate at the end of next quarter

Rate Range	Frequency	Percent
1-5	2	2
6-10	4	3
11-15	28	24
16-20	66	56.
21-25	5	4
No response	12	10.
Total	117	100

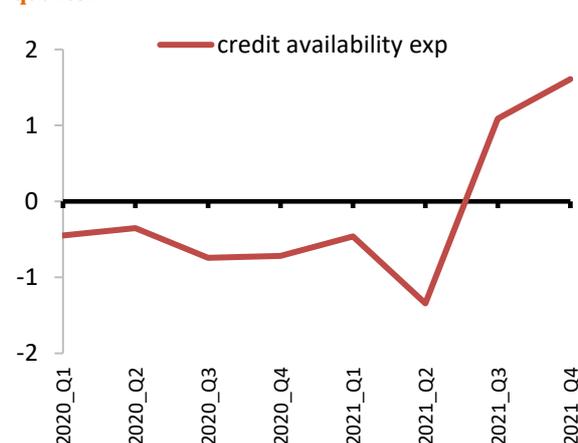
Source: Bank of Zambia

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

(Net balance, 0.16; Q3 2021, - 0.44)

Credit availability is expected to improve in the first quarter despite lending rates remaining elevated (Charts 19 and 22). This is largely due to positive perceptions about future economic prospects following a peaceful outcome of the August 2021 General Election.

Chart 22: Credit availability expectations next quarter³



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

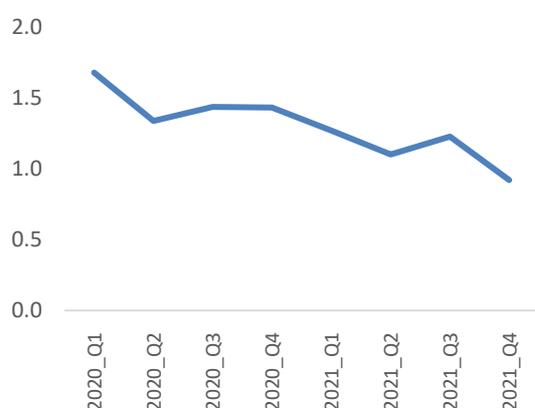
³ Credit availability = tight (-)/ loose (+)

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

(Net balance, 0.62; Q3 2021, 0.73)

Lending rates are expected to moderate but remain elevated in the first quarter of 2022 (Charts 19 and 23). The moderation is on account of the expected decline in Government borrowing as espoused in the 2022 National Budget Speech and positive perception about the new Government economic policies.

Chart 23: 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 recovered in the fourth quarter of 2021 in line with expectations. This was largely attributed to enhanced investor confidence as a result of the positive outcome from the August 2021 General Elections coupled with increased consumer demand during the festive season.

Businesses, however, anticipate economic conditions to deteriorate in the first quarter of 2022 due to the rise in fuel and electricity prices and the persistence in uncertainty associated with the COVID-19 pandemic.

Economic performance one year ahead remains positive as new Government economic policies are expected to improve prospects for growth. This will, however, be moderated by the rise in fuel prices, expected increase in electricity tariffs, and the

persistence in uncertainty associated with the COVID-19 pandemic.

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).