

Quarterly Survey of Business Opinion and Expectations



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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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Table of Contents

Summary.....	2
1.0 Introduction	3
2.0 Current Economic Performance and Expectations	3
3.0 Evolution of Costs, Wages and Prices.....	8
4.0 Macroeconomic Prospects One Year Ahead.....	9
5.0 Conclusion.....	11
Appendix – Survey Methodology	11

Summary

The 2022 November Survey of Business Opinion and Expectations revealed sluggish economic activity as most firms reported a decline in output, domestic sales, new orders, capacity utilisation, and level of investment largely on account of high cost of borrowing. The outlook for the fourth quarter is positive as business activity is expected to rebound due to increased demand during the festive season. Over the next 12 months, strong economic performance is envisaged on the back of an IMF Extended Credit Facility (ECF), appreciation of the exchange rate, decline in inflation, improved fiscal management and successful debt restructuring negotiations. These factors are expected to boost investor confidence, reduce the cost of doing business and increase productivity. This notwithstanding, increases in energy prices, spillovers from the prolonged Russia-Ukraine conflict and possible capital outflow pose considerable risk to the growth outlook.

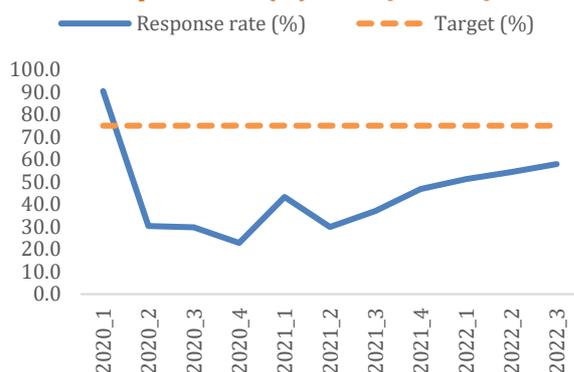
1.0 Introduction

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

This Report presents views of firms regarding macroeconomic developments in the third quarter of 2022 and expectations for the next quarter and 12 months ahead.

A total of 191 responses were received out of the 330 questionnaires administered. This represents a response rate of 57.9 percent, slightly higher than the 54.4 percent achieved in the second quarter (Chart 1).

Chart 1: Response Rate (%): 2020Q1-2022Q3



Source: Bank of Zambia

Lusaka Province recorded the highest number of responses while Muchinga Province had the least (Table 1). Western Province was surveyed for the first time and 9 responses out of 15 were received (60.0 percent).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Lusaka	37	19.4
Copperbelt	21	11
Southern	33	17.3
Central (kabwe,mkushi)	31	16.2
Northwestern	25	13.1
Eastern	20	10.5
Luapula	7	3.7
Northern	5	2.6
Muchinga	3	1.6
Western	9	4.7
Total	191	100.0

Source: Bank of Zambia

The tourism, services and merchants sectors had the highest response rates (24.6 percent each) while the construction sector remained the lowest at 12 percent (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Manufacturing	22	11.5
Merchant	47	24.6
Service	47	24.6
Tourism	47	24.6
Construction	12	6.3
Agriculture	16	8.4
Total	191	100.0

Source: Bank of Zambia

The rest of the Report is organised as follows: Section 2 presents opinions of firms about economic performance during the third quarter of 2022 as well as expectations for the fourth quarter and one year ahead. Section 3 provides opinions on input costs, wages and prices. Section 4 presents macroeconomic prospects one year ahead. Section 5 concludes. A description of the survey methodology is provided in the appendix.

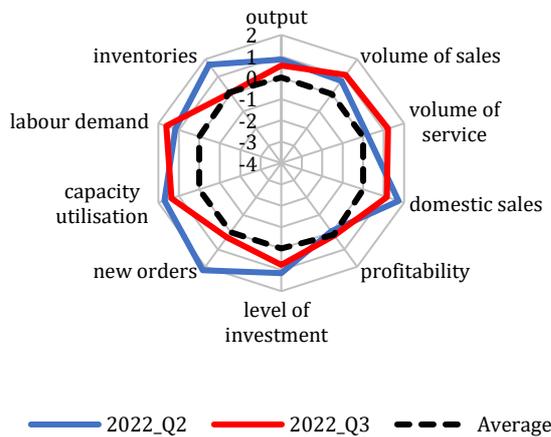
2.0 Current Economic Performance and Expectations

... economic performance showed signs of moderation in the third quarter

Economic activity is reported to have slightly weakened in the third quarter as the majority of the firms indicated a decline in output, domestic sales, new orders, capacity

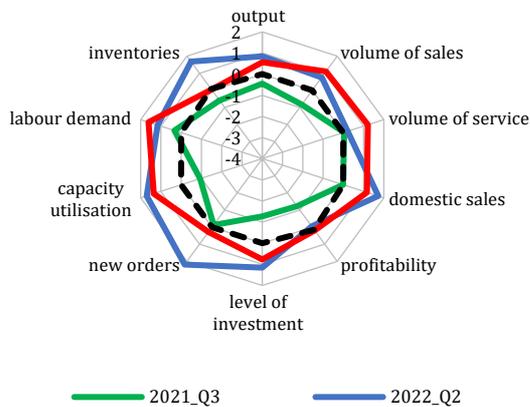
utilisation and level of investment largely attributed to high borrowing costs (Chart 2A and 2B).

Chart 2A: Business Opinion Response Patterns*



Source: Bank of Zambia

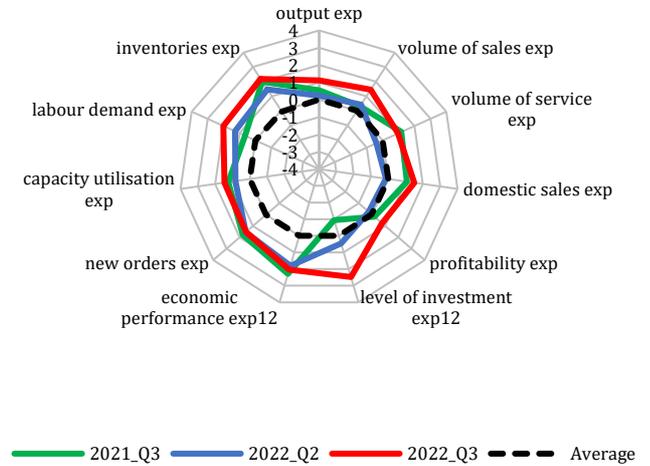
Chart 2B: Business Opinion Response Patterns*



Source: Bank of Zambia

Economic activity is, however, expected to pick-up in the fourth quarter largely on account of festive demand. In view of this, output, domestic sales, volume of sales, volume of service, profitability, and labour demand are expected to rise (Chart 3).

Chart 3: Business Expectations Response Patterns



Source: Bank of Zambia

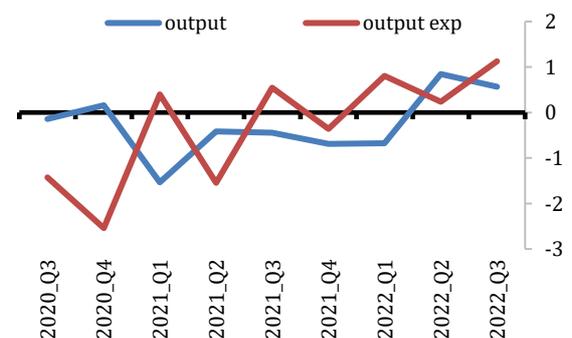
Economic outlook one year ahead remains positive following the approval of an IMF Extended Credit Facility (ECF) on August 31 this year. In addition, exchange rate appreciation, low and stable inflation, fiscal consolidation and successful debt restructuring are expected to bolster growth.

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

(Net balance, 0.02; Q2 2022 0.07)

Consistent with expectations, output declined in the third quarter due to constrained supply of some raw materials. (Chart 4).

Chart 4: Opinion on Output



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

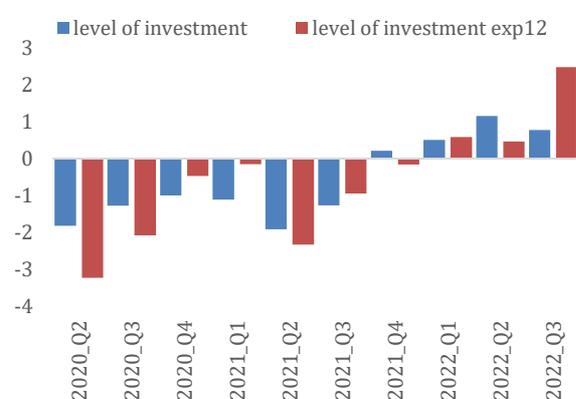
Business firms, however, expect output to be ramped up in the fourth quarter to meet festive seasonal demand. This notwithstanding, the impending increase in electricity tariffs may limit the rise in output.

2.2 How was your firm's level of investment?

(Net balance, 0.08; Q2 2022 0.14)

The level of investment moderated slightly during the third quarter as most firms had limited investment funds mainly due to high borrowing costs (Chart 5).

Chart 5: Level of Investment



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

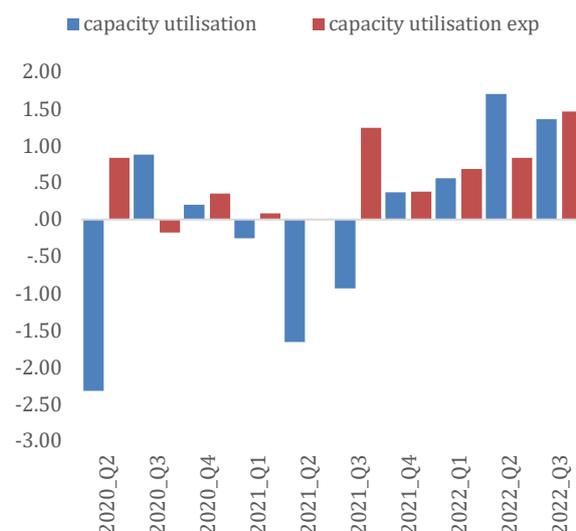
Against the backdrop of sound macroeconomic policies, improved fiscal management and a stable Kwacha exchange rate, investment intentions one year ahead are notably optimistic.

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

(Net balance, 0.09; Q2 2022 0.15)

Consistent with the fall in output, capacity utilisation declined in the third quarter (Chart 6). However, an uptick is expected in the fourth quarter as output surges in response to increased demand during the festive season.

Chart 6: Capacity Utilisation



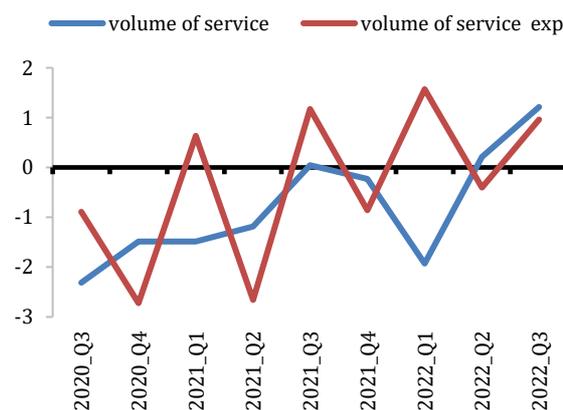
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.15; Q2 2022, -0.09)

The volume of service edged higher in the third quarter largely on account of the peak season for leisure and tourism activities (Chart 7). Tourist operators reported a surge in international arrivals as COVID-19 restrictions continued to ease globally.

Chart 7: Volume of Service



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

Further growth in services activity is expected in the fourth quarter attributed to the festive season, particularly in the tourism sector. In addition, some financial institutions expect improved volume of service based on planned

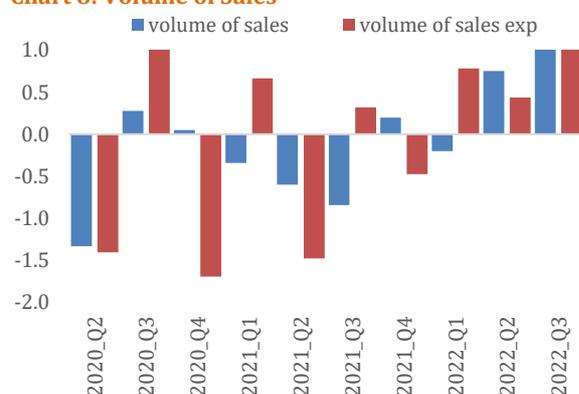
expansion in the number of branches, launch of e-wallet products and improved clientele occasioned by the mass recruitment of civil servants.

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

(Net balance, 0.08; Q2 2022, -0.04)

The volume of sales expanded further as demand picked-up, spurred by the appreciation of the exchange rate (Chart 8). A further boost to the volume of sales is expected in the fourth quarter on account of higher demand during the festive period.

Chart 8: Volume of Sales



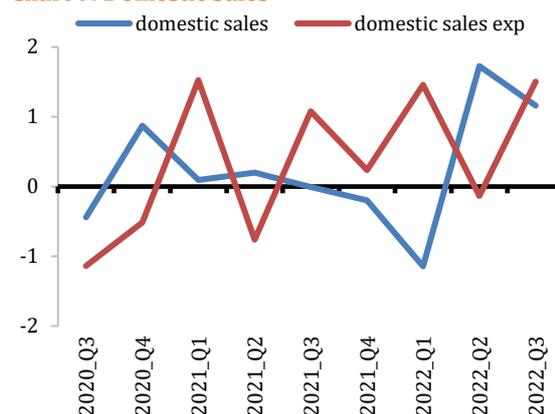
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.14; Q2 2022, 0.24)

In line with lacklustre output performance, domestic sales deteriorated in the third quarter. However, domestic sales are expected to pick-up in the fourth quarter as the festive season sets in.

Chart 9: Domestic Sales



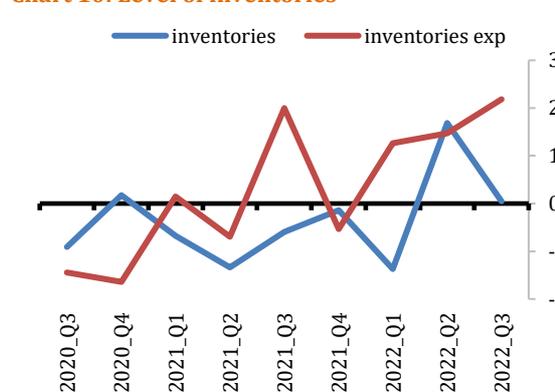
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.05; Q2 2022, 0.15)

Inventories, particularly in the wholesale and retail sector, declined as demand increased on account of the appreciation of the exchange rate (Chart 10).

Chart 10: Level of inventories



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

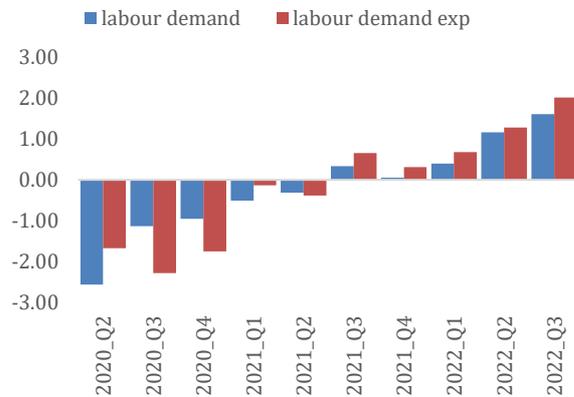
2.8 How do you rate your firm's labour demand?

(Net balance, 0.16; Q2 2022, 0.09)

Labour demand maintained an upward trend and is expected to rise further in the fourth quarter, sustained by the peak tourism season and increased planting activity in the agriculture sector (Chart 11). Equally, the manufacturing sector is expected to hire more

workers to meet high demand during the festive period.

Chart 11: Labour Demand

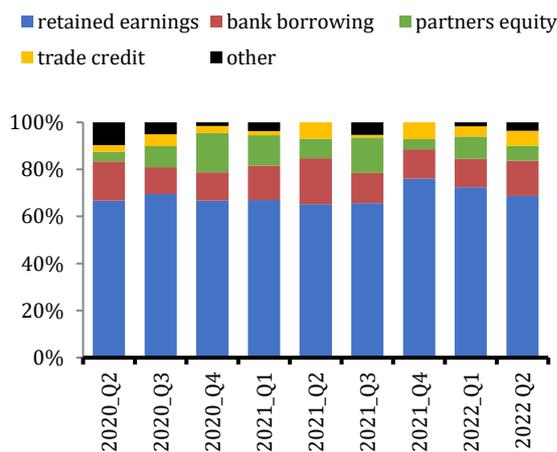


Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

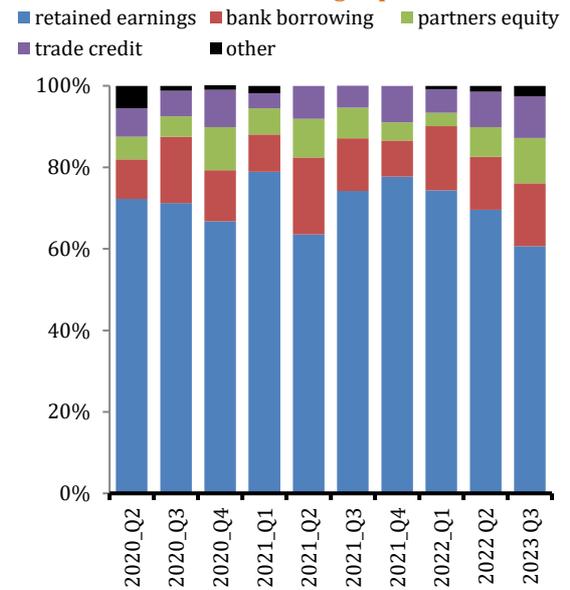
Retained earnings remained the dominant source of investment finance and working capital while bank borrowing continued to be the secondary source during the third quarter (Charts 12A and 12B). This is despite the perception that commercial banks' lending rates are high.

Chart 12A: Sources of Investment Finance



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

Chart 12B: Sources of Working Capital



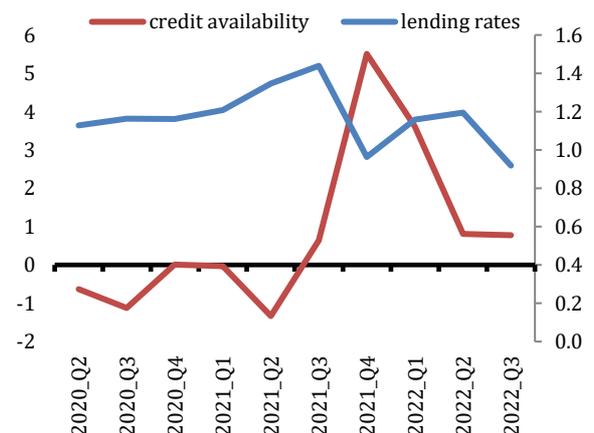
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Credit Availability, -0.50; Q2 2022, -0.50)
(Lending Rates, 0.79; Q2 2022, 0.88)

Credit conditions remained tight for most of the firms during the third quarter (Chart 13). Relatively high lending rates continued to constrain credit accessibility (Charts 12A and 12B).

Chart 13: Credit Availability and Lending Rates



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

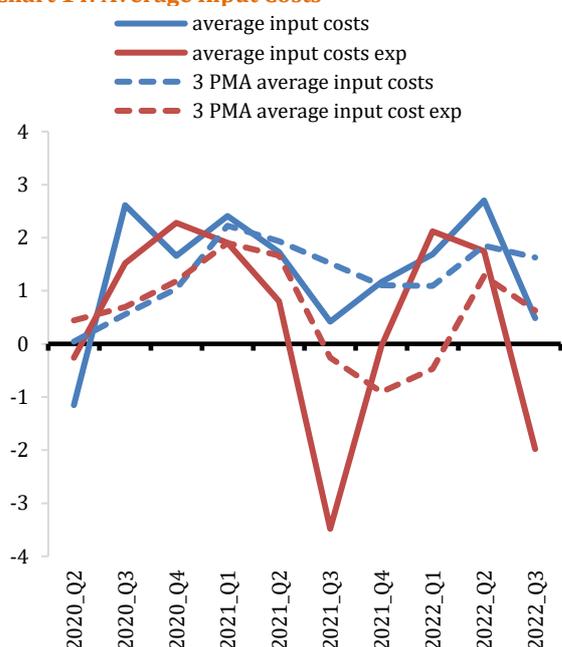
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.42; Q2 2022, 0.74)

The majority of the businesses reported a material decline in input costs during the third quarter (Chart 14). The reduction in fuel pump prices and appreciation of the exchange rate pushed input costs downwards.

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

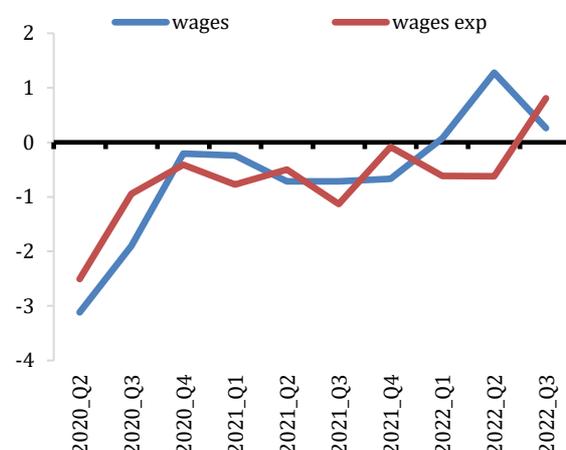
Over the fourth quarter, input costs are expected to reduce further. However, the persistent adverse impact of the Russia Ukraine conflict on crude oil prices and imminent increase in electricity tariffs following the completion of the Cost of Service Study may push up input costs.

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

(Net balance 0.16; Q2 2022, 0.24)

Consistent with expectations, the wage bill declined in the third quarter as seasonal workers were laid off following the end of crop harvesting (Chart 15). However, in the fourth quarter, the wage bill is envisaged to rise as additional workers are hired in view of heightened planting activity in the agriculture sector and high consumer demand during the festive period.

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?

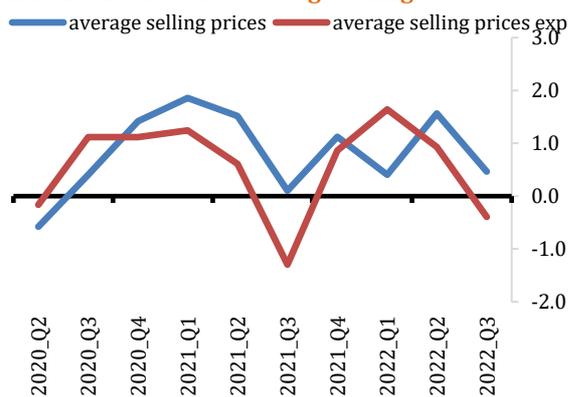
(Net balance, 0.13; Q2 2022, 0.33)

Average selling prices eased in the third quarter due to a stronger Kwacha, reduction in fuel pump prices and resumption of grain exports by Ukraine in July¹ (Chart 16).

¹ In July 2022, Russia and Ukraine signed a United Nations backed deal to allow the resumption of grain

exports through the Black Sea. This resulted in improved global food supply.

Chart 16: Evolution of Average Selling Prices



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

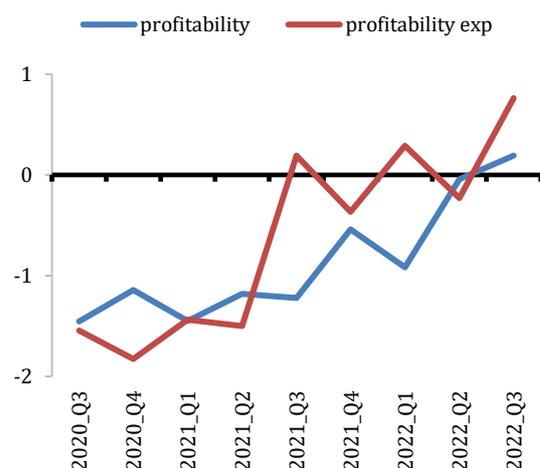
The downward trend in prices is expected to continue in the fourth quarter as respondents anticipate the Kwacha to remain strong.

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

(Net balance, -0.18; Q2 2022, -0.24)

Consistent with the upturn in the volume of service and sales, profitability improved slightly (Chart 17). A further pick-up is envisaged in the fourth quarter backed by increased business activity during the festive season.

Chart 17: Profitability



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

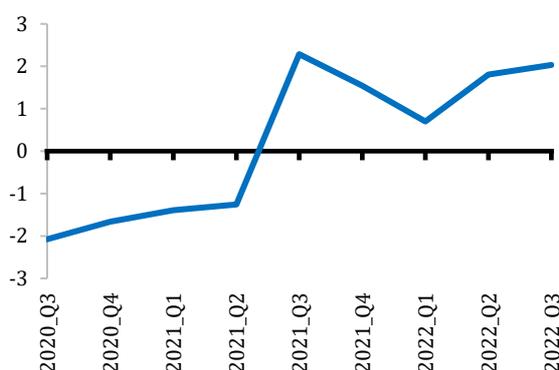
4.0 Macroeconomic Prospects One Year Ahead

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

(Net balance, 0.82; Q2 2022, 0.74)

Over the next twelve months, economic performance is expected to be strong supported by the IMF ECF and attendant investor confidence, successful debt restructuring, improved economic management, declining inflation and a strong Kwacha (Chart 18). This notwithstanding, high energy prices, unresolved Russia-Ukraine conflict and possible capital outflows driven by interest rate hikes by central banks in advanced economies may slowdown economic activity.

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

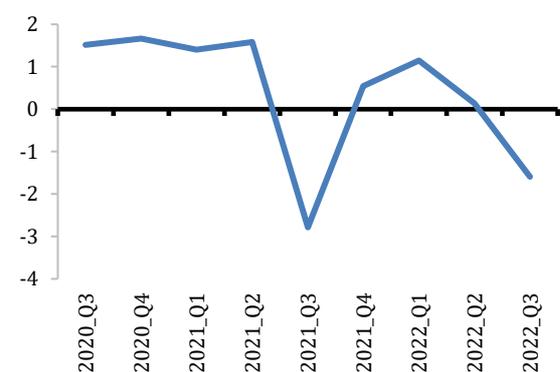
4.3 What do you expect the price level to be over the next quarter?

(Net balance, -0.01; Q2 2022, 0.44)

Inflationary pressures are expected to ease further in the fourth quarter in view of the declining trend coupled with continued strengthening of the exchange rate (Charts 19 and 20). Consequently, inflation is expected to range between 6.0 and 10.0 percent (Table 3). Upside risks to inflation include the impending hike in electricity tariffs and the negative

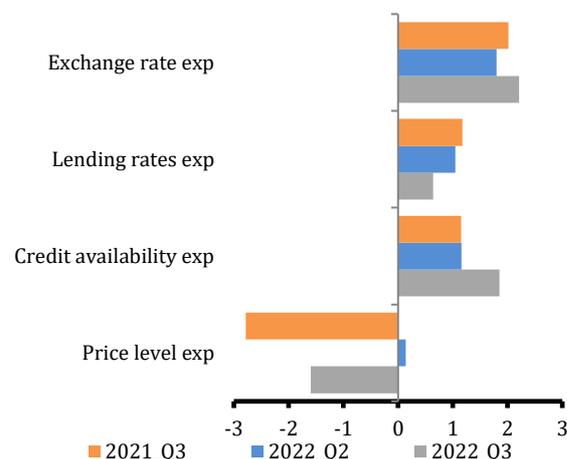
effects of the prolonged Russia-Ukraine conflict.

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

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

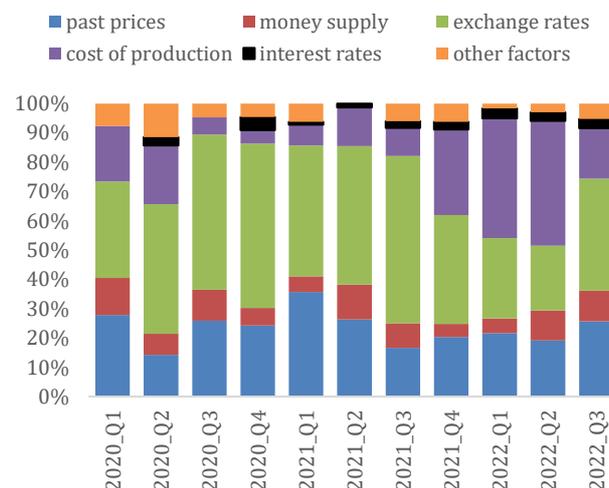
Range (percent)	Frequency	Percent
1-5	27	14.1
6-10	120	62.8
11-15	24	12.6
16-20	8	4.2
21-25	2	1.0
36-40	1	0.5
Non-Response	9	4.7
Total	191	100.0

Source: Bank of Zambia

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

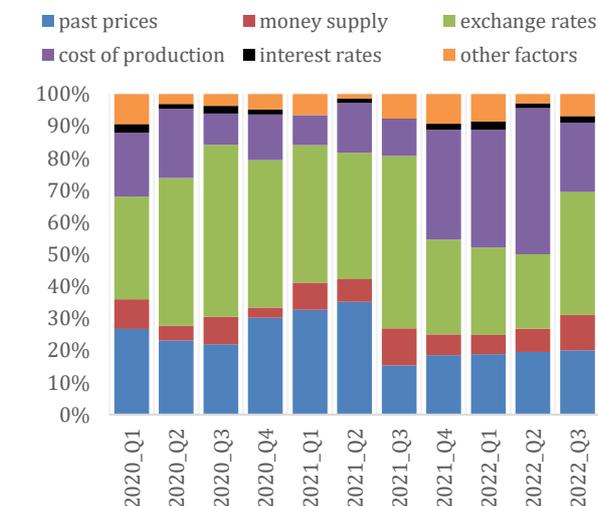
A strong Kwacha and past prices remain the significant drivers of the expected lower inflation (Charts 21A and 21B).

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, 0.55 Q2 2022, 0.41)

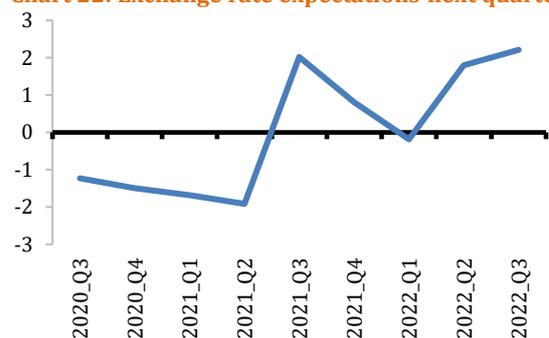
The IMF ECF and Government's firm resolve to consolidate the fiscal position are expected

to continue underpinning the favorable performance of the Kwacha against the US dollar in the fourth quarter (Charts 20 and 22, and Table 4). Most of the firms expect the Kwacha to range between K11 and K15 per US dollar. Nonetheless, the exchange rate may weaken on account of potential capital outflows in view of interest rate hikes by central banks in advanced economies, rise in festive demand and the persistent unfavorable impact of the Russia-Ukraine conflict on crude oil and food prices.

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

Range	Frequency	Percent
1-5	14	7.3
6-10	15	7.9
11-15	91	47.6
16-20	69	36.1
Non-Response	2	1.0
Total	191	100.0

Chart 22: Exchange rate expectations next quarter



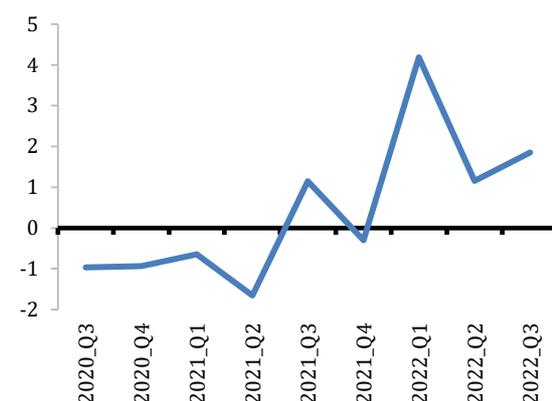
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.36; Q2 2022, -0.44)

Access to credit is expected to remain tight over the fourth quarter. High credit risk and lending rates, largely driven by Government's continued reliance on domestic borrowing, underpin the tight credit conditions (Charts 20 and 23).

Chart 23: Credit availability expectations next quarter²



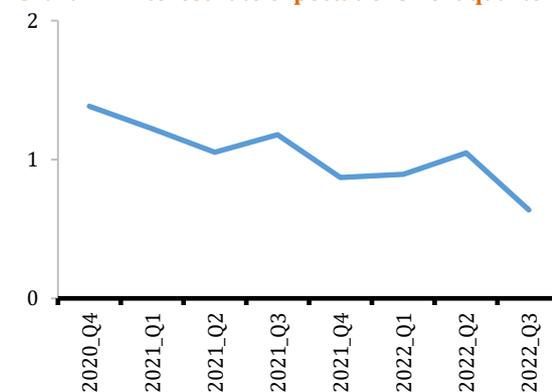
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.53; Q2 2022, 0.68)

Lending rates are expected to remain high mainly due to sustained Government reliance on the domestic debt market (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 activity is reported to have weakened slightly in the third quarter as the majority of the firms indicated a decline in output, domestic sales, new orders, capacity utilisation and level of investment largely due to high borrowing costs. However, most firms expect a pick-up in economic activity in the

² Credit availability = tight (-)/ loose (+)

fourth quarter on account of strong festive demand.

Expectation of economic performance one year ahead remains positive, buttressed by an IMF ECF, exchange rate appreciation, decline in inflation, fiscal consolidation and debt resolution. However, high energy prices, prolonged Russia-Ukraine conflict and potential capital outflows may limit growth.

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 (Mumbwa, Chisamba, Chibombo, Kabwe, Kapiri Mposhi, Mkushi Farming Block and Serenje), 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), Lusaka (Lusaka, Chongwe and Kafue) and Western (Mongu, Kaoma, Senanga and Kalabo) 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).