

Quarterly Survey of Business Opinion and Expectations



August 2023

Disclaimer:

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



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Summary

The *2023 August Survey of Business Opinion and Expectations* indicates an upturn in economic activity in the second quarter of 2023 underpinned by improved demand conditions, a stronger Kwacha and positive sentiments resulting from the restructuring of official bilateral external debt. Consequently, all sectors recorded an increase in business activity reflected in higher output, new orders, capacity utilisation, domestic sales, volume of sales, volume of service and profitability. Economic activity is, however, anticipated to moderate in the third quarter due to weaker demand as the effect of the NAPSA pre-retirement lumpsum payment diminishes and agricultural marketing activity comes to a close. Over the next 12 months, positive economic performance is expected owing to the successful debt restructuring, possible resolution of challenges at Mopani and Konkola Copper Mines, improved fiscal management and increased foreign direct investment inflows. Economic activity may, however, weaken due to electricity shortages arising from the expected adverse impact of El Niño weather phenomenon.

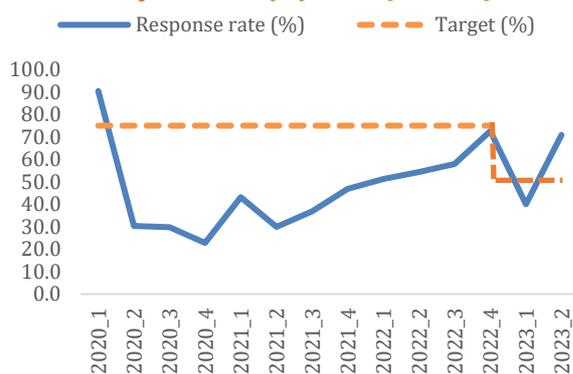
1.0 Introduction

The Bank of Zambia Quarterly Survey of Business Opinion 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 second quarter of 2023 and expectations for the third quarter and 12 months ahead.

A total of 248 responses were received out of 350 questionnaires administered. This represents a response rate of 70.9 percent compared to 40.0 percent achieved in the first quarter of 2023 (Chart 1).

Chart 1: Response Rate (%): 2020Q1-2023Q2¹



Source: Bank of Zambia

Central Province recorded the highest number of responses while Southern Province had the least (Table 1).

Table 1: Distribution of Responses by Province

Province	Frequency	Percent
Central (Kabwe, Mkushi)	57	23
Lusaka	42	17
Northern	32	13
Copperbelt	31	13
Luapula	22	9
Eastern	21	8
Muchinga	17	7
Western	11	4
Northwestern	9	4
Southern	6	2
Total	248	100

Source: Bank of Zambia

The tourism sector had the highest number of responses (26.6 percent) followed by the services (23.0 percent) and merchant sectors (20.2 percent). The construction sector remained the lowest, at 2.4 percent (Table 2).

Table 2: Distribution of Responses by Sector

Sector	Frequency	Percent
Tourism	66	27
Service	57	23
Merchant	50	20
Agriculture	37	15
Manufacturing	32	13
Construction	6	2
Total	248	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 second quarter of 2023 as well as expectations for the third 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 rebounded in the second quarter

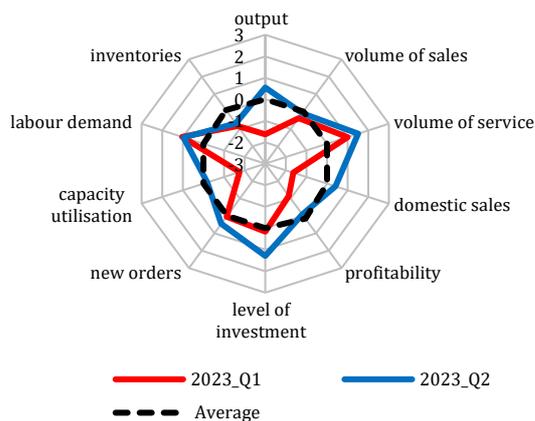
Economic activity rose in the second quarter of 2023, bolstered by improved demand

¹ The target response rate was adjusted to 60 percent from 75 percent on account of the change in the data collection mode.

conditions and appreciation of the Kwacha against the US dollar. In addition, business sentiments were upbeat on account of the agreement on a comprehensive debt treatment between the Government of Zambia and the committee of its official creditors.

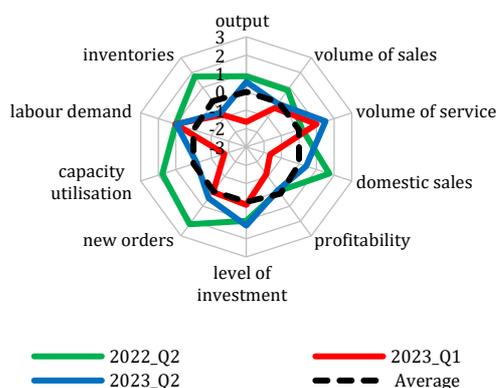
Consequently, output, new orders, domestic sales, capacity utilisation, volume of sales, volume of service, profitability and level of investment increased (Chart 2A and 2B). However, despite the pick-up in activity, labour demand marginally decreased, reflecting efforts by businesses to lower operating costs.

Chart 2A: Business Opinion Response Patterns



Source: Bank of Zambia

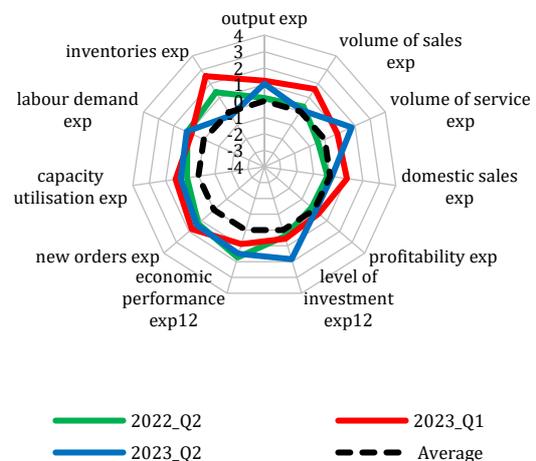
Chart 2B: Business Opinion Response Patterns*



Source: Bank of Zambia

In the third quarter, however, a slowdown in activity is expected as demand declines post the agricultural harvesting season and the effects of NAPSA pre-retirement lumpsum benefits dissipate (Chart 3). As a result, the agriculture as well as wholesale and retail trade sectors expect decreases in output and volume of sales, respectively.

Chart 3: Business Expectations Response Patterns



Source: Bank of Zambia

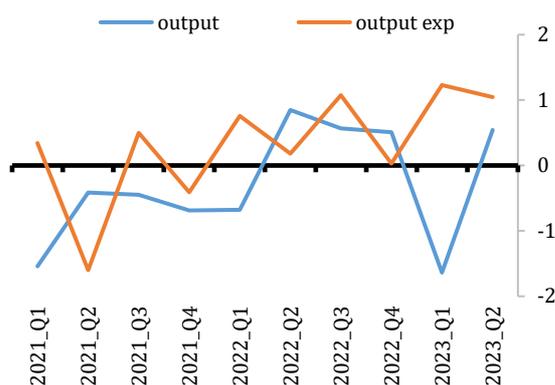
The outlook for economic activity one year ahead is optimistic on account of the successful restructuring of official external debt, expected resolution of challenges at Mopani and Konkola Copper Mines, improved fiscal management and increased foreign direct investment inflows driven by favourable economic environment.

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

(Net balance, 0.00; Q1 2023, -0.57)

Output rose in the manufacturing sector owing to a stronger Kwacha, increased demand and normalisation of electricity supply after a shortage in the first quarter of the year. In the agriculture sector, higher output was as a result of the harvesting period (Chart 4).

Chart 4: Opinion on Output



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

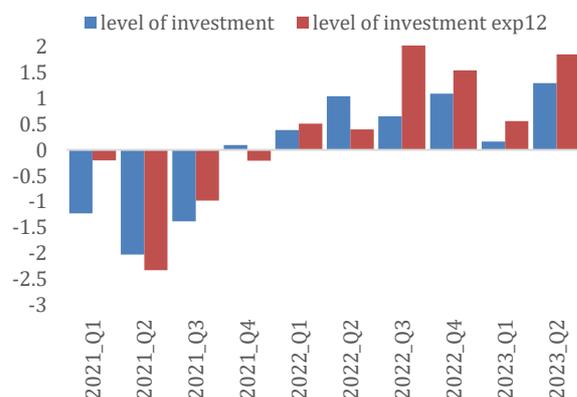
In the third quarter, a moderation in output is expected as agricultural harvesting activity subsides.

2.2 How was your firm's level of investment?

(Net balance, 0.18; Q1 2023, 0.01)

Most businesses increased investment on account of higher profitability, refurbishment of premises in preparation for the peak tourism period and expansion of irrigation facilities in the agriculture sector (Chart 5).

Chart 5: Level of Investment



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

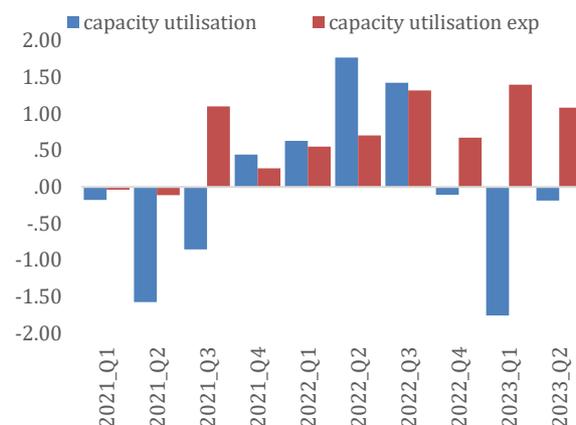
The positive momentum in investment is expected to continue one year ahead mainly due to relative stability in the Kwacha exchange rate against the US dollar and increased business confidence arising from the successful external debt restructuring.

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

(Net balance, -0.21; Q1 2023, -0.50)

Capacity utilisation expanded as a result of increased demand, improved raw material supply, greater investment levels, and stability in electricity supply (Chart 6). Nonetheless, with the expected moderation in output in the third quarter, a decline is likely.

Chart 6: Capacity Utilisation



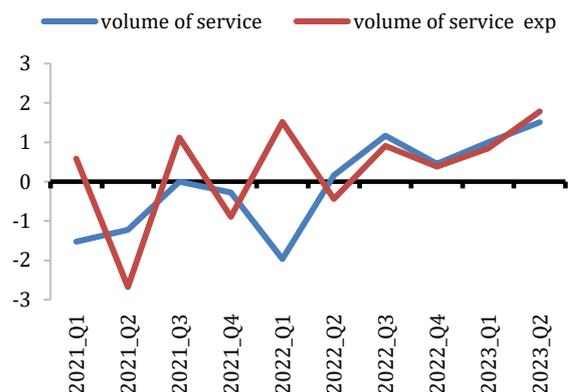
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

(Net balance, 0.23; Q1 2023, 0.11)

The volume of service rose further in the second quarter, spurred by an uptick in seasonal tourism activity, significantly reduced disruptions from COVID-19 and increased foreign tourist arrivals underpinned by the waiver of visa requirements for 43 countries. In addition, demand for financial services increased owing to effective marketing by service providers (Chart 7).

Chart 7: Volume of Service



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

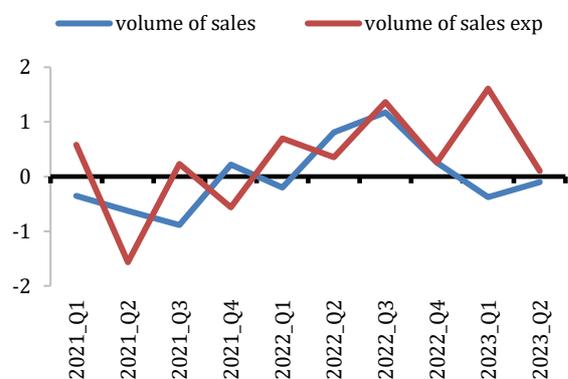
In the subsequent quarter, the volume of service is expected to expand further as tourism activity peaks. In addition, financial service providers anticipate increased demand for loans as the impact of the NAPSA pre-retirement lumpsum benefits payment fades.

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

(Net balance, -0.33; Q1 2023, -0.42)

The majority of merchants reported an improvement in the volume of sales as a result of the NAPSA pre-retirement lumpsum benefits payments, a stronger Kwacha and agricultural sector harvesting activity (Chart 8).

Chart 8: Volume of Sales



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

This notwithstanding, the volume of sales is expected to decline in the third quarter largely due to weakening demand post the

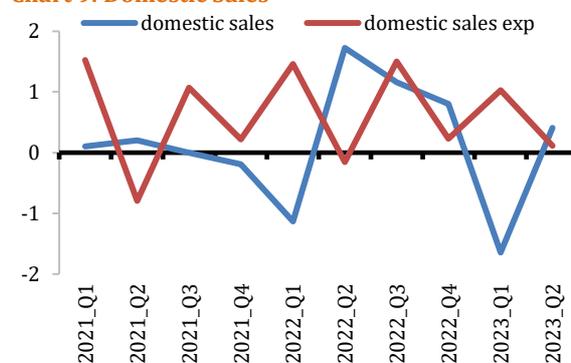
harvest period and waning effects of the NAPSA pre-retirement lumpsum benefits payment.

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

(Net balance, 0.00; Q1 2023, -0.37)

Both the manufacturing and agriculture sectors reported higher domestic sales owing to robust demand and a rise in output (Chart 9). In the third quarter, however, a reduction is expected as agricultural output declines.

Chart 9: Domestic Sales



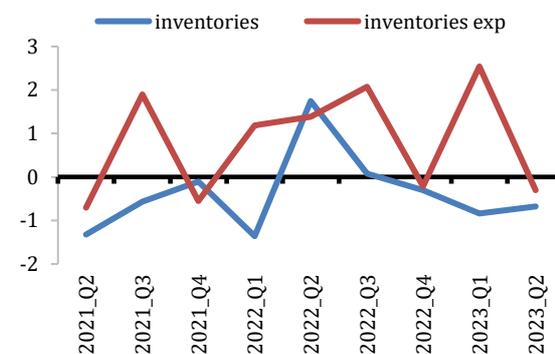
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

(Net balance, -0.15; Q1 2023, -0.17)

Inventories rose in the second quarter as merchants and manufacturers stockpiled to meet rising demand (Chart 10).

Chart 10: Level of inventories



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

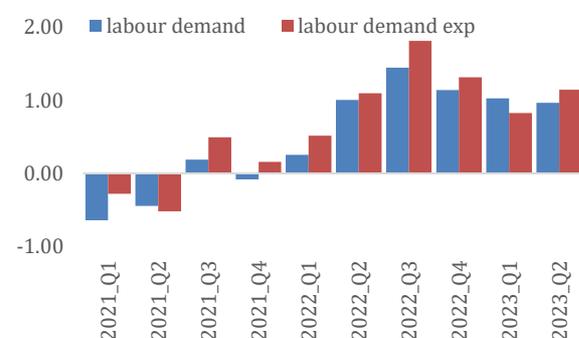
In the third quarter, inventories are expected to decrease on expectation of lower demand.

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

(Net balance, 0.08; Q1 2023, 0.09)

Despite an upturn in business activity in the second quarter, demand for labour slightly declined as businesses sought to manage operating costs, particularly in the wholesale and retail trade sector (Chart 11). In the third quarter, however, a turnaround, driven by increased activity in the tourism sector, is anticipated.

Chart 11: Labour Demand

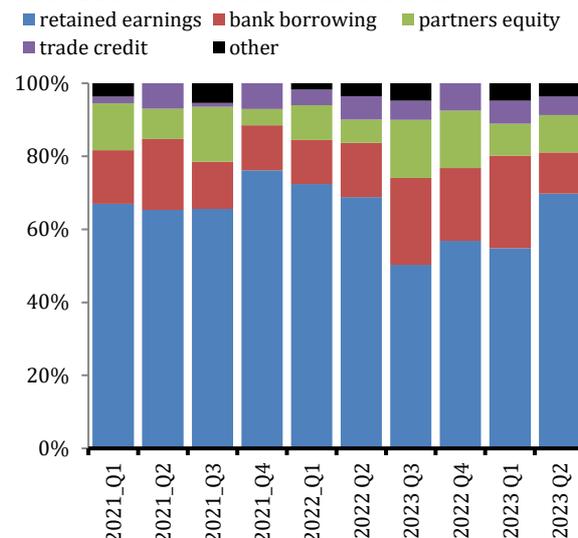


Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

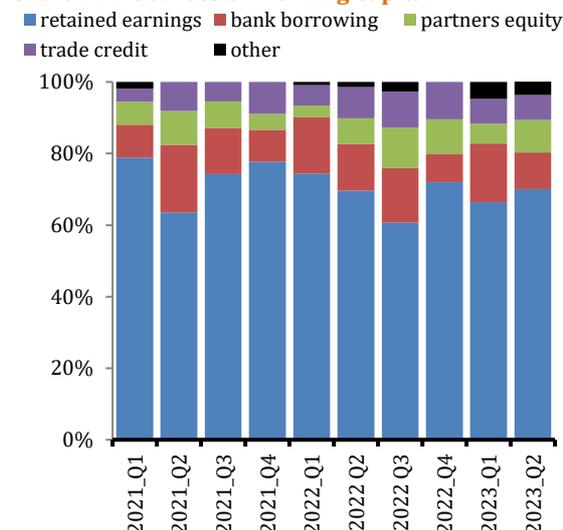
Retained earnings continued to be the main source of working capital and financing for investment followed by bank borrowing (Charts 12A and 12B).

Chart 12A: Sources of Investment Finance



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

Chart 12B: Sources of Working Capital



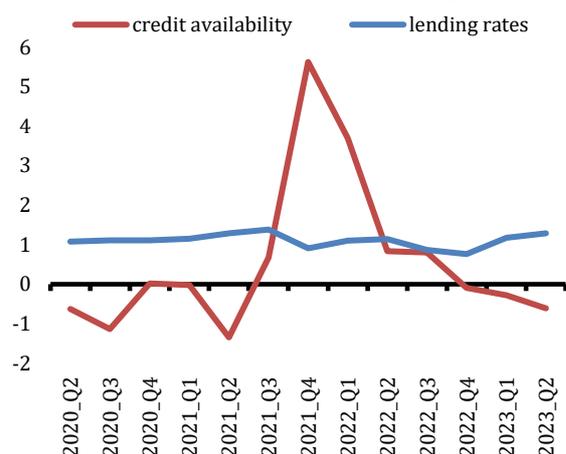
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

*(Credit Availability, -0.71; Q1 2023, -0.66)
(Lending Rates, 0.93; Q1 2023, 0.89)*

Conditions in the credit market remained tight as rising lending rates and stringent collateral requirements continued to restrict access. Most respondents linked the increase in lending rates to the upward adjustment in the Monetary Policy Rate to 9.50 percent in May from 9.25 percent in February (Chart 13). Further, sustained Government borrowing from the domestic debt market contributed to the rise in lending rates.

Chart 13: Credit Availability and Lending Rates



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

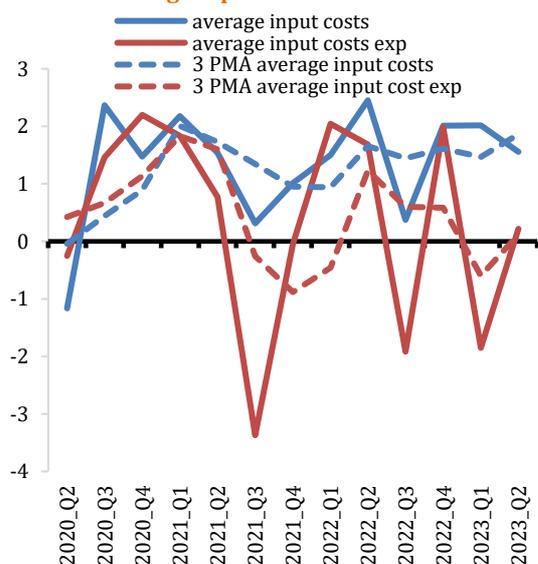
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.60; Q1 2023, 0.67)

Input costs declined during the second quarter, supported by the appreciation of the Kwacha against the US dollar, reduction in fuel pump prices and decrease in electricity tariffs for some commercial entities, particularly for consumption within 300kWh per month (Chart 14).

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

Firms, however, foresee a rise in input costs in the third quarter largely due to the increase in the maize grain floor price.

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

(Net balance 0.21; Q1 2023, 0.13)

Despite a decline in labour demand, the wage bill increased as most businesses adjusted compensation of employees in response to the general rise in the cost of living (Chart 15).

Chart 15: Evolution of Wages



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

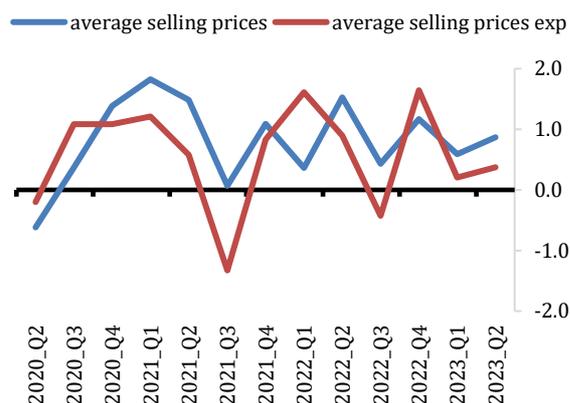
In the third quarter, the wage bill is expected to reduce as seasonal workers in the agriculture sector are laid off after the harvest period.

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

(Net balance, 0.21; Q1 2023, 0.16)

Average selling prices rose largely driven by a surge in demand and adjustment of prices of some agricultural commodities by the Food Reserve Agency as shown in 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

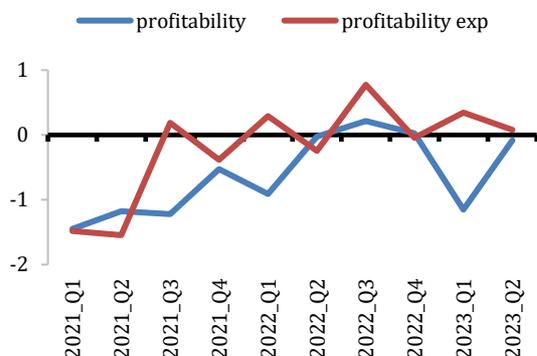
Businesses expect selling prices to rise further in the third quarter as prices of maize-related products increase in view of the higher maize grain floor price of K280 per 50 Kg bag from K180 in the previous marketing season. In addition, stronger demand in the tourism sector will add to the rise in prices.

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

(Net balance, -0.25; Q1 2023, -0.50)

Profitability improved mainly due to increased demand and lower input costs. In addition, most providers of financial services attributed the rise in profitability to higher loan recoveries as well as reduced impairment losses (Chart 17).

Chart 17: Profitability



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

Over the third quarter, low output in the agriculture sector and high input costs are expected to erode profitability.

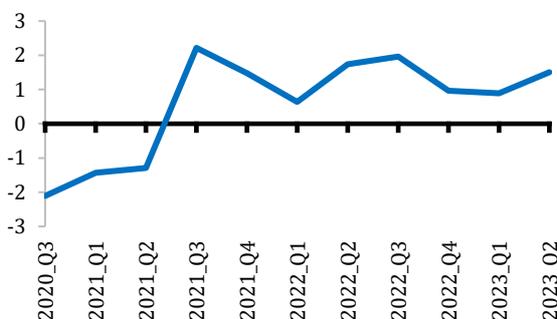
4.0 Macroeconomic Prospects One Year Ahead

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

(Net balance, 0.67; Q1 2023, 0.47)

Economic prospects 12 months ahead point to a robust performance owing to improved fiscal management, likely resolution of challenges at Mopani and Konkola Copper Mines, successful restructuring of official external debt and improved foreign direct investment inflows (Chart 18). However, inertia to economic growth may arise from adverse effects of El Niño weather phenomenon and delayed resolution of public external debt owed to private creditors.

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

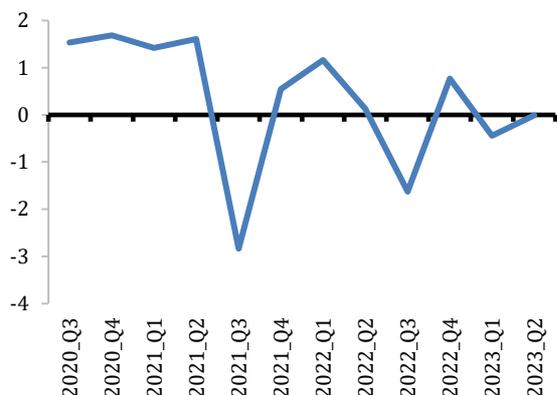
4.2 What do you expect the price level to be over the next quarter?

(Net balance, 0.40; Q1 2023, 0.29)

Inflationary pressures are expected to edge higher in the third quarter of 2023 on account of the rise in input costs associated with the increase in the FRA maize grain floor price and electricity rationing due to El Niño weather phenomenon (Charts 19 and 20).

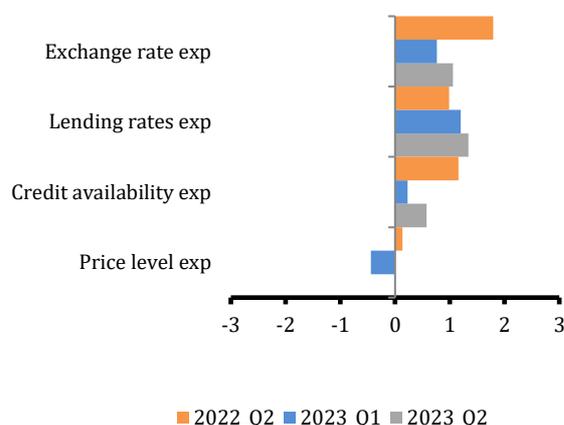
Consequently, inflation is expected to average 10.7 percent.

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



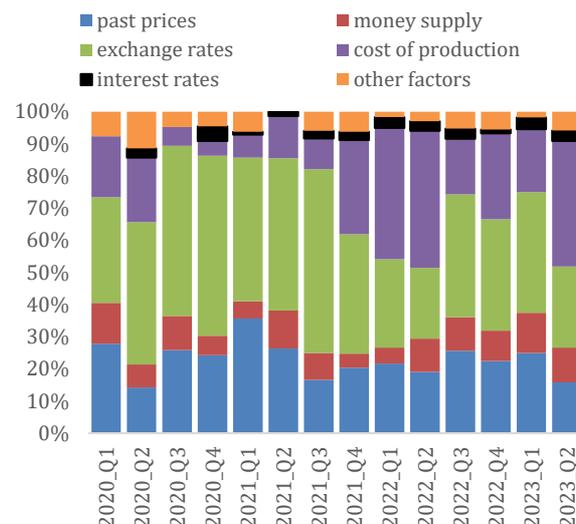
Notes:
Exchange rate = appreciation, strong (+)/depreciate, weak (-)
Lending rates = increase, high (+)/decrease, low (-)
Credit availability = tight (-)/ loose (+)
Inflation expectations = increase, high (+)/decrease, low (-)

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

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

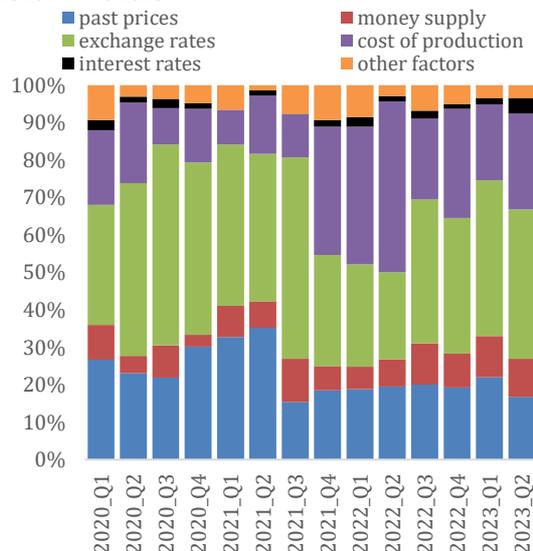
High production costs are expected to drive inflationary pressures in the third quarter and 12 months ahead (Charts 21A and 21B).

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, 0.16; Q1 2023, 0.06)

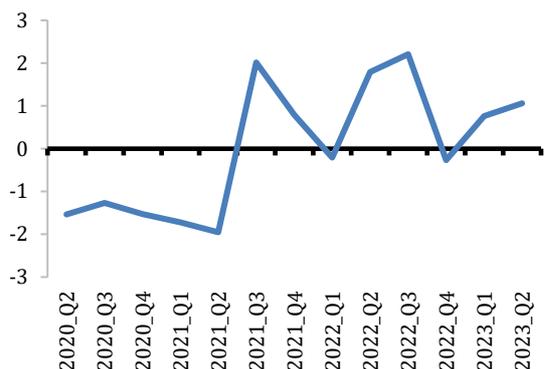
The Kwacha is expected to strengthen against the US dollar largely due to a potential rise in foreign exchange supply supported by improved investor confidence following the successful restructuring of official bilateral external debt (Charts 20 and 22; Table 3). Most firms expect the Kwacha to average K17.62 per US dollar.

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

Range	Frequency	Percent
1-5	1	1
6-10	5	3
11-15	27	14
16-20	146	75
21-25	16	8
Total	195	100

Source: Bank of Zambia

Chart 22: Exchange rate expectations next quarter



Note: The line at zero (0.0) represents the long-term average

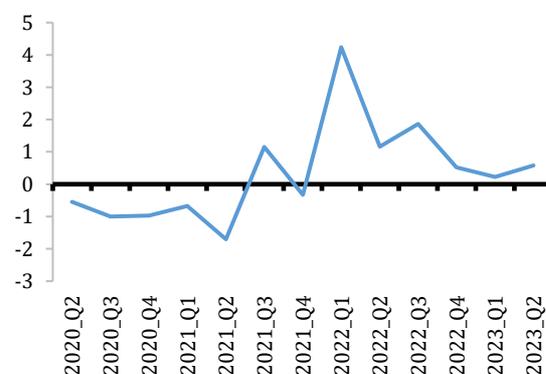
Source: Bank of Zambia

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

(Net balance, -0.51; Q1 2023, -0.55)

Access to credit is expected to be constrained by high lending rates (Charts 20 and 23). Most respondents expect monetary policy to remain tight in view of mounting inflationary pressures.

Chart 23: Credit availability expectations next quarter²



Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

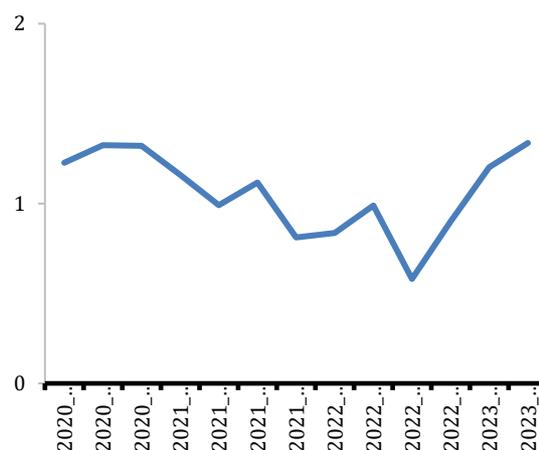
² Credit availability = tight (-)/ loose (+)

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

(Net balance, 0.81; Q1 2023, 0.76)

Lending rates are expected to rise further as most respondents foresee the Central Bank maintaining a tight monetary policy stance to curb rising inflation (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 improved in the second quarter of 2023 as demand picked up, the Kwacha strengthened, and business sentiments improved on account of the debt restructuring agreement with official bilateral creditors. As a result, business activity increased across sectors as output, new orders, domestic sales, capacity utilisation, volume of sales, volume of service, profitability and level of investment rose.

Firms, however, expect lower economic activity in the subsequent quarter as demand weakens due to a reduction in agricultural marketing and dissipation of the effect of the NAPSA pre-retirement lumpsum payout.

The majority of respondents expect positive economic performance in the next 12 months, buttressed by improved fiscal management, possible resolution of challenges at Mopani

and Konkola Copper Mines, higher foreign direct investment inflows and successful restructuring of official external debt. However, El Niño weather phenomenon and delayed resolution of external public debt owed to private creditors may moderate 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, wholesale and retail, 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, Chibombo, Kabwe, Mumbwa 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), Lusaka (Lusaka, Chongwe and Kafue) and Western (Mongu, Kaoma 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).