

# Quarterly Survey of Business Opinion and Expectations



February 2023

Disclaimer:

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



**Bank of Zambia**



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## *Summary*

The *2023 February Survey of Business Opinion and Expectations* revealed a reduction in private sector business activity predominantly driven by subdued demand conditions, a weaker Kwacha, high input costs and raw material shortages. The slowdown in activity was widespread across sectors as reflected in the fall in output, domestic sales, capacity utilisation, volume of sales and service, profitability, and demand for labour. Economic outlook 12 months ahead points to subdued activity as rising production costs, exchange rate depreciation, and slow implementation of economic reforms are expected to weigh on business confidence and potential investment. Nonetheless, improved copper production, successful debt restructuring, and pick-up in foreign direct investment may spur growth.

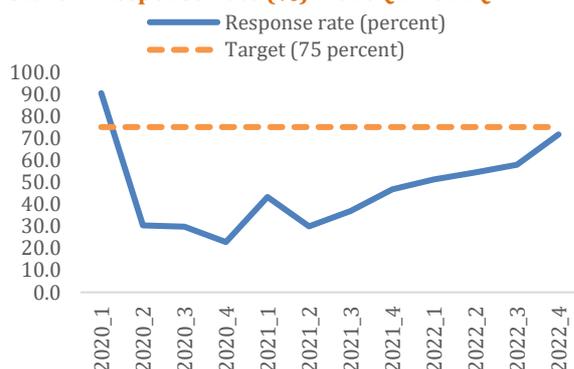
## 1.0 Introduction

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 fourth quarter of 2022 and expectations for the first quarter of 2023 and 12 months ahead.

A total of 253 responses were received out of 353 questionnaires administered. This represents a response rate of 72.0 percent from 57.9 percent achieved in the third quarter (Chart 1).

**Chart 1: Response Rate (%): 2020Q1-2022Q4**



Source: Bank of Zambia

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

**Table 1: Distribution of Responses by Province**

Province	Frequency	Percent
Central	54	21
Lusaka	51	20
Southern	21	8
North-Western	21	8
Eastern	21	8
Northern	20	8
Muchinga	19	8
Copperbelt	18	7
Luapula	17	7
Western	11	4
Total	253	100

Source: Bank of Zambia

The tourism sector had the highest response rate (28.1 percent) followed by the merchant (23.7 percent) and service sectors (17.0 percent). The construction sector remained the lowest, at 3.6 percent (Table 2).

**Table 2: Distribution of Responses by Sector**

Sector	Frequency	Percent
Manufacturing	37	15
Merchant	60	24
Service	43	17
Tourism	71	28
Construction	9	4
Agriculture	33	13
Total	253	100

Source: Bank of Zambia

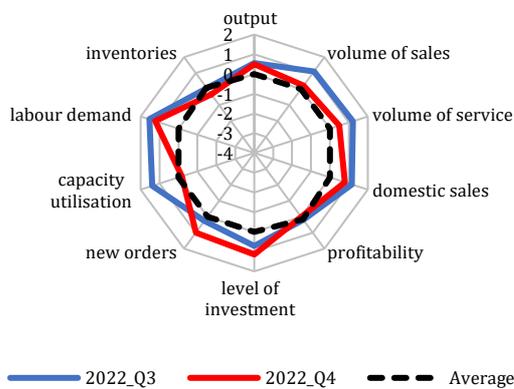
The rest of the Report is organised as follows: Section 2 presents opinions of firms about economic performance during the fourth quarter of 2022 as well as expectations for the first quarter of 2023 and one year ahead. Section 3 provides opinions on input costs, wages and prices. Section 4 presents 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 tapered in the fourth quarter*

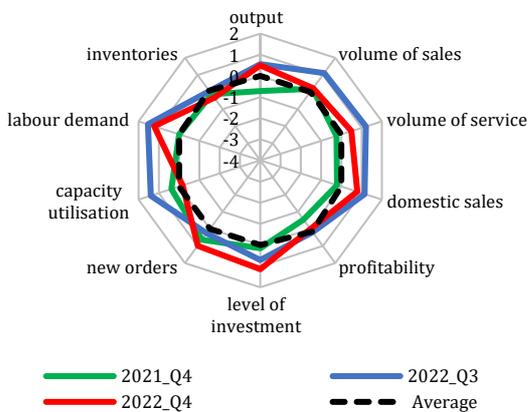
Economic activity moderated in the fourth quarter as businesses grappled with weak demand, depreciation of the exchange rate, higher fuel pump prices and raw material supply constraints. Consequently, output, domestic sales, capacity utilisation, volume of sales and service, profitability and demand for labour declined (Chart 2A and 2B). This notwithstanding, the level of investment increased largely to mitigate the expected negative impact of loadshedding.

**Chart 2A: Business Opinion Response Patterns\***



Source: Bank of Zambia

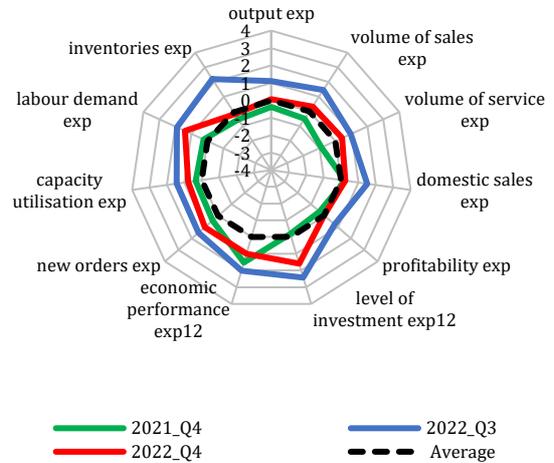
**Chart 2B: Business Opinion Response Patterns\***



Source: Bank of Zambia

Sluggish economic activity is expected to persist during the first quarter of 2023 mainly on account of the impact of electricity loadshedding and exchange rate depreciation (Chart 3).

**Chart 3: Business Expectations Response Patterns**



Source: Bank of Zambia

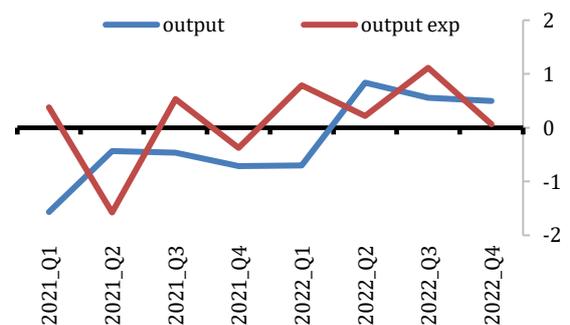
Economic outlook one year ahead is largely pessimistic as most respondents expect electricity loadshedding, a weak domestic currency, high fuel pump prices, rising inflation and slow implementation of economic reforms to impact economic activity.

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

*(Net balance, 0.01; Q3 2022 0.02)*

Contrary to expectations, output declined in the fourth quarter as manufacturing production was constrained by short supply of some raw materials as well as low demand and high cost of inputs triggered by the depreciation of the exchange rate (Chart 4).

**Chart 4: Opinion on Output**



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

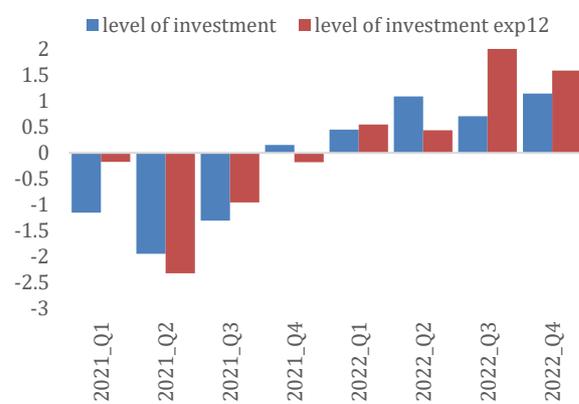
Output performance is expected to remain subdued in the first quarter of 2023 mainly attributed to electricity loadshedding and high input costs.

## 2.2 How was your firm's level of investment?

*(Net balance, 0.15; Q3 2022 0.08)*

Investment levels increased during the fourth quarter mainly driven by expenditure on alternative energy sources to mitigate intermittent electricity supply (Chart 5).

**Chart 5: Level of Investment**



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

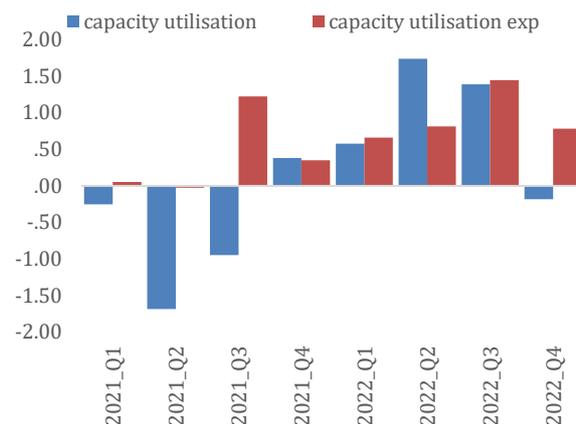
A deterioration in investment appetite one year ahead is expected owing to persistently high production costs and limited investment funds due to reduced profitability.

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

*(Net balance, -0.20; Q3 2022 0.09)*

Capacity utilisation declined and is projected to remain subdued due to a downturn in output occasioned by lower demand and high cost of production (Chart 6).

**Chart 6: Capacity Utilisation**



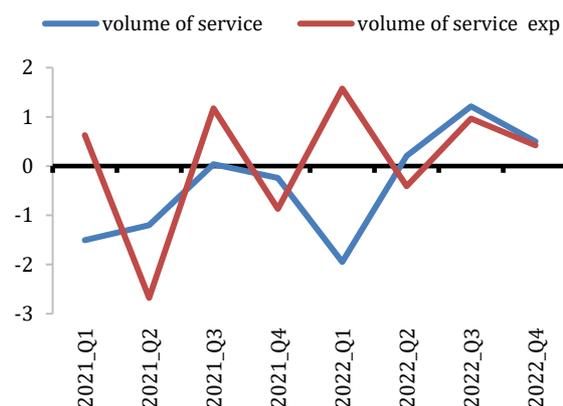
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, -0.02; Q3 2022, 0.15)*

The volume of service decreased during the fourth quarter on account of reduced demand for tourism and leisure activities. The reduction was attributed to off-peak season, increased business costs owing to higher fuel prices and the depreciation of the exchange rate (Chart 7). This trend is expected to extend into the first quarter of 2023.

**Chart 7: Volume of Service**



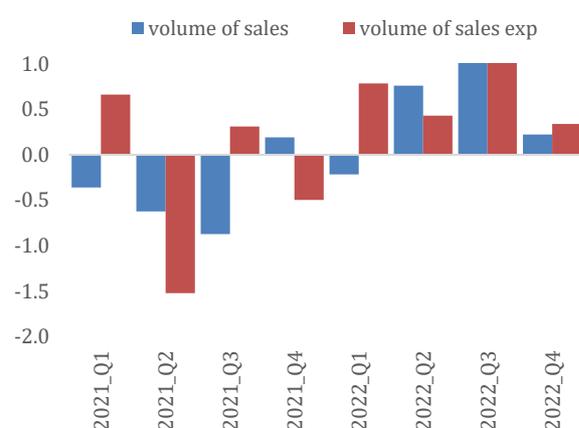
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, -0.22; Q3 2022, 0.08)*

Sales volumes declined during the fourth quarter as demand waned due to a weaker Kwacha and rising production costs (Chart 8). In the first quarter of 2023, weak demand conditions are expected to continue and weigh on the volume of sales.

**Chart 8: Volume of Sales**



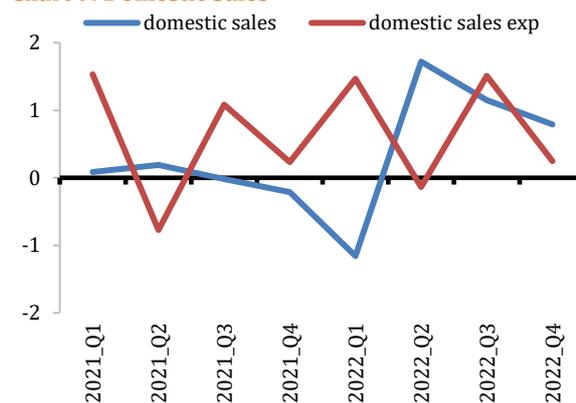
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, 0.07; Q3 2022, 0.14)*

Domestic sales declined, both in the manufacturing and agriculture sectors, largely due to the moderation in output and weaker demand (Chart 9). Domestic sales are expected to remain subdued in the subsequent quarter.

**Chart 9: Domestic Sales**



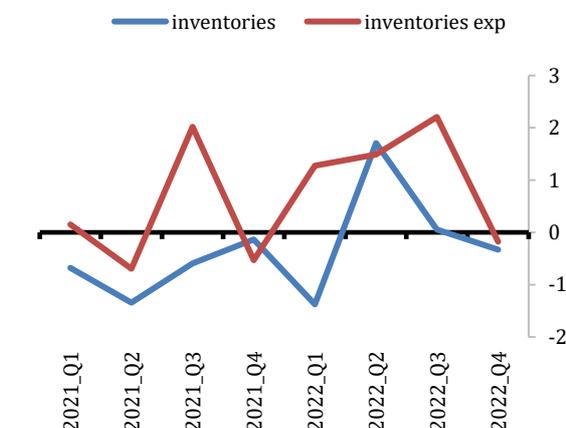
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, -0.10; Q3 2022, -0.05)*

Most retail and wholesale traders reported a fall in inventories, reflecting reluctance to stockpile in view of dampened demand and high cost of importation associated with a weaker Kwacha (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 first quarter of 2023, the majority of the businesses expect inventories to remain low.

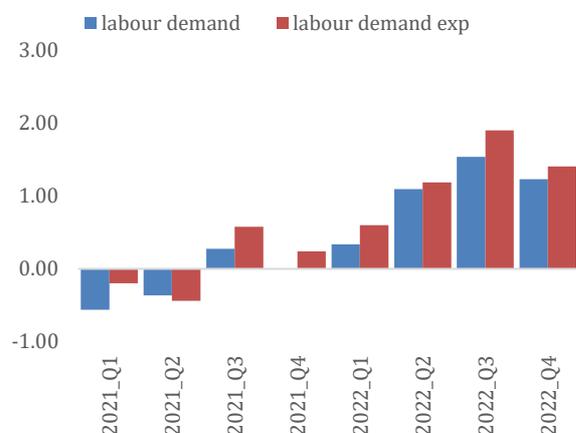
## 2.8 How do you rate your firm's labour demand?

*(Net balance, 0.11; Q3 2022, 0.16)*

Consistent with a weak business environment, most firms scaled back on

staffing levels and expect no significant change over the next quarter in an effort to minimise operating costs (Chart 11).

**Chart 11: Labour Demand**

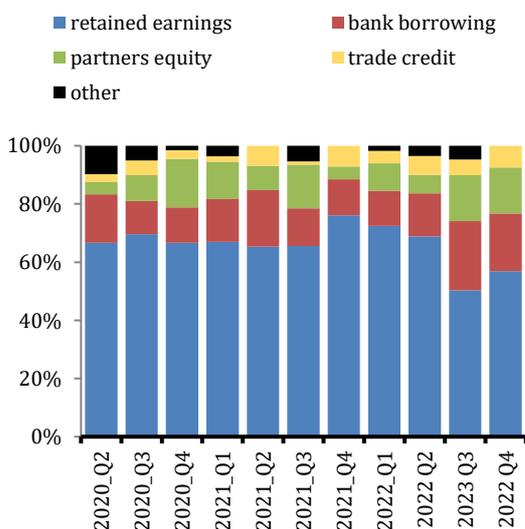


Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

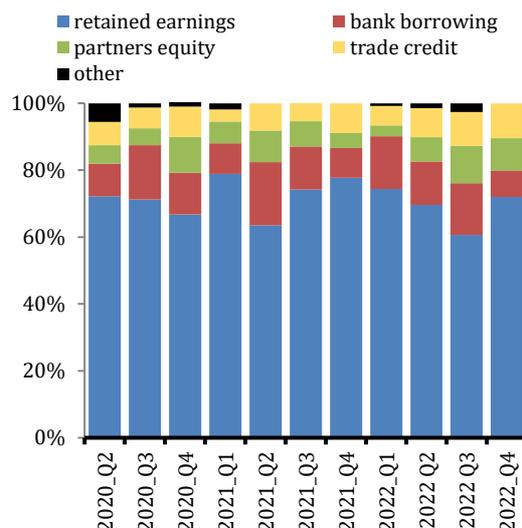
Retained earnings remained the major source of investment finance and working capital followed by bank borrowing (Charts 12A and 12B).

**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**



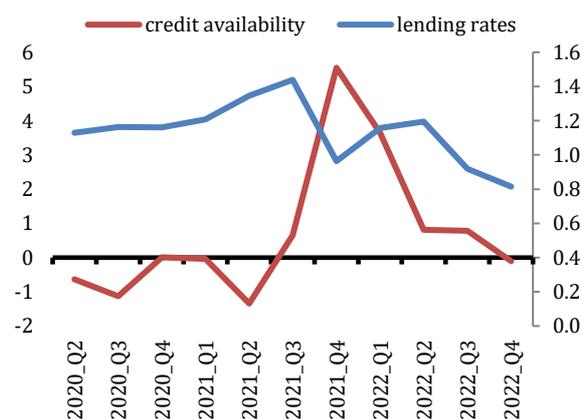
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Credit Availability, -0.63; Q3 2022, -0.50)  
(Lending Rates, 0.75; Q3 2022, 0.79)*

Conditions in the credit market remained broadly tight and relatively high lending rates as well as elevated credit risk continued to limit accessibility (Chart 13). Nonetheless, a marginal reduction in commercial banks' lending rates was observed.

**Chart 13: Credit Availability and Lending Rates**



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

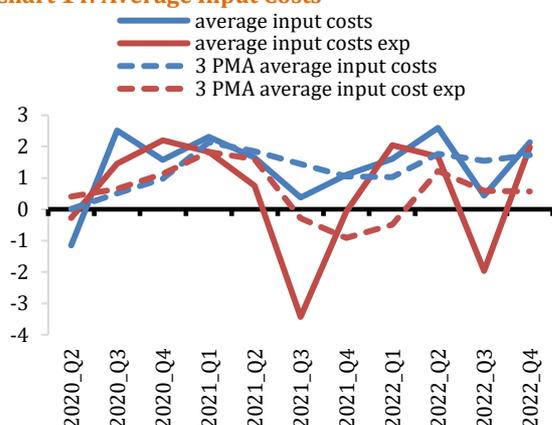
### 3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.67; Q2 2022, 0.42)

Input costs accelerated during the fourth quarter largely driven by the exchange rate depreciation, higher fuel pump prices, raw material shortages, and increased fertiliser prices (Chart 14). In addition, the introduction of the power factor surcharge by ZESCO contributed to high input costs.

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 first quarter of 2023, a weak Kwacha, electricity supply constraints, protracted Russia-Ukraine conflict, and upward adjustment in wages in view of the revision to the minimum wage are expected to sustain high input costs. The impending increase in electricity tariffs added to concerns over elevated input costs.

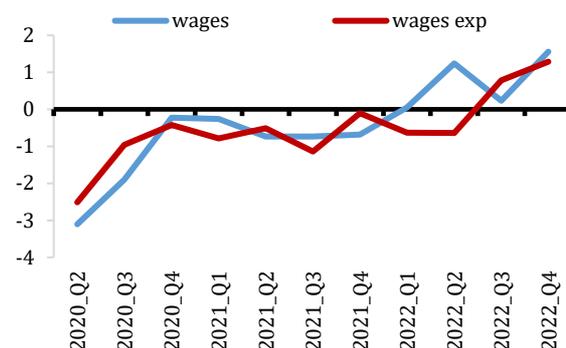
#### 3.2 What has been your firm's experience with respect to the wage bill?

(Net balance 0.27; Q3 2022, 0.16)

Consistent with expectations, the wage bill increased during the fourth quarter as more casual workers were hired in the agriculture sector in view of the planting season (Chart 15). This is in addition to the payment of gratuities and annual leave allowances, as

well as pay rise implemented to cushion the high cost of living.

Chart 15: Evolution of Wages



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

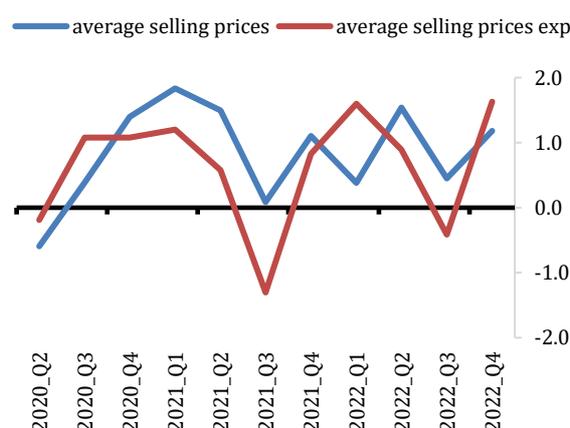
In the first quarter of 2023, the wage bill is projected to rise as agriculture activity intensifies and employers adjust salaries to conform to the new minimum wage.

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

(Net balance, 0.26; Q3 2022, 0.13)

In response to higher input costs, and to keep pace with rising operating costs, firms increased selling prices in the fourth quarter (Chart 16). Selling prices are expected to remain high over the first quarter of 2023 due to elevated input costs.

Chart 16: Evolution of Average Selling Prices



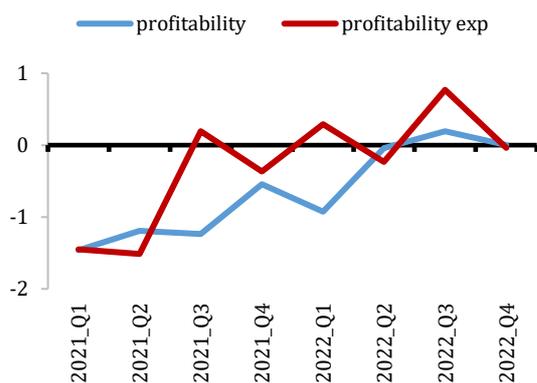
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, -0.22; Q3 2022, -0.18)*

Profitability declined during the fourth quarter and is estimated to remain subdued largely due to reduced business activity amid high production costs (Chart 17).

**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, 0.50; Q3 2022, 0.82)*

Most business firms lowered expectation for economic performance 12 months ahead due to electricity shortages, exchange rate depreciation, high cost of inputs, and slow progress in implementing economic reforms by Government (Chart 18). Nonetheless, the projected rise in copper production, potential success in debt restructuring, and pick-up in foreign direct investment may bolster 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, 0.60; Q3 2022, -0.01)*

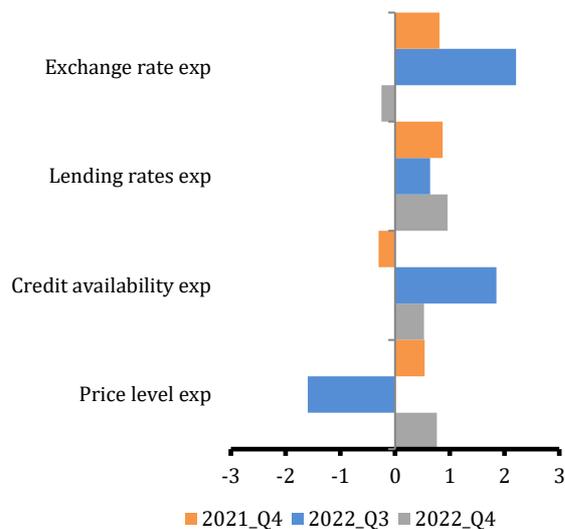
Inflationary pressures are expected to intensify in the first quarter of 2023 due to electricity shortages, rise in fuel prices and depreciation of the Kwacha. In addition, the impending increase in electricity tariffs as well as the recent adjustment of the minimum wage and civil servants' salaries are likely to lead to upward price pressures (Charts 19 and 20). Consequently, inflation is expected to range between 6.0 and 10.0 percent (Table 3).

**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**

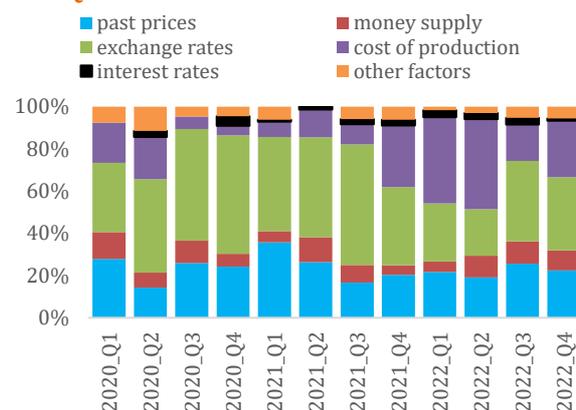
Range	Frequency	Percent
1-5	16	6
6-10	131	52
11-15	98	39
16-20	7	3
21-25	1	0
Total	253	100

Source: Bank of Zambia

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

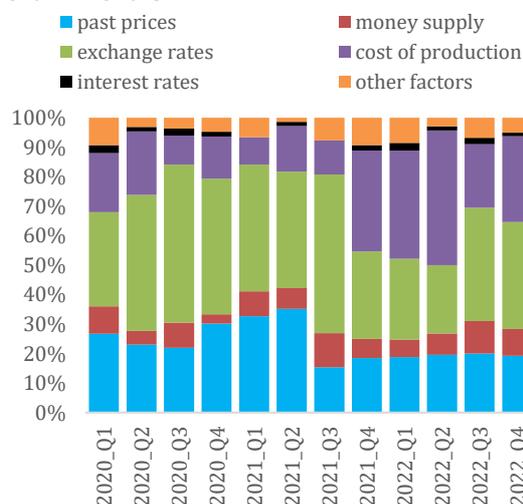
A weaker Kwacha and high cost of inputs largely explain the high inflation expectations (Charts 21A, 21B and 22).

**Chart 21A: Key Drivers of Inflationary Expectations Next Quarter**



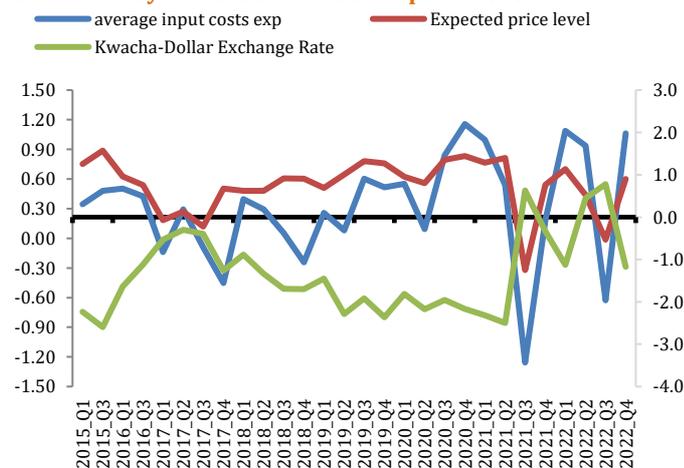
Source: Bank of Zambia

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



Source: Bank of Zambia

**Chart 22: Key Drivers of Inflation Expectations<sup>1</sup>**



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

Source: Bank of Zambia

<sup>1</sup> Chart 22 shows that overtime, changes in average input costs and exchange rate level have largely accounted for the movements in the expected price level.

#### 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, -0.29 Q3 2022, 0.55)*

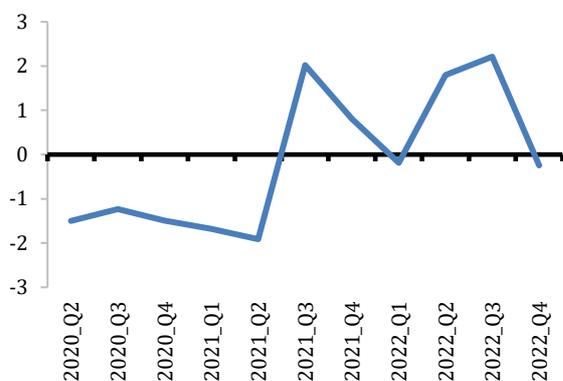
The Kwacha is expected to weaken against the US dollar mainly due to the low supply of US dollars amid high demand associated with fuel imports and electricity shortages. In addition, uncertainty surrounding the debt restructuring talks may add to the pressures (Charts 20 and 23; Table 4). Most of the firms expect the Kwacha to range between K16 and K20 per US dollar (Table 4).

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

Range	Frequency	Percent
1-5	18	7
6-10	9	4
11-15	29	12
16-20	186	74
21-25	11	4
Total	253	100

Source: Bank of Zambia

**Chart 23: Exchange rate expectations next quarter**



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

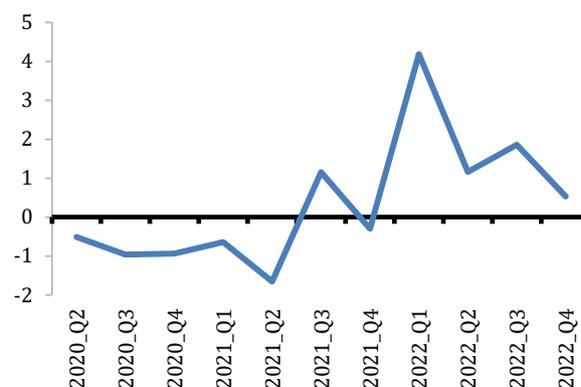
#### 4.5 How do you expect credit availability to be over the next quarter?

*(Net balance, -0.52; Q3 2022, -0.36)*

Access to credit is expected to remain tight over the first quarter of 2023 on account of high lending rates and elevated credit risk in

view of a weak economic outlook (Charts 20 and 24)

**Chart 24: Credit availability expectations next quarter<sup>2</sup>**



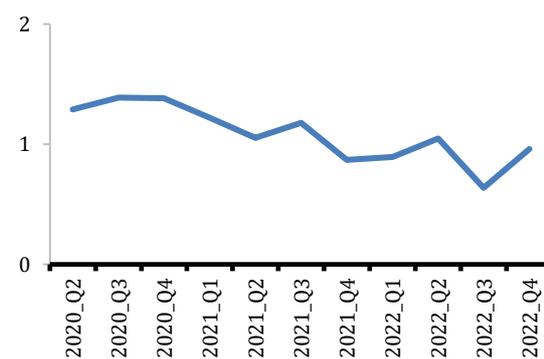
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, 0.65; Q3 2022, 0.53)*

Lending rate expectations were broadly unchanged as sustained Government recourse to the domestic debt market is expected to keep borrowing costs high. This is in addition to the projected rise in inflation (Charts 20 and 25).

**Chart 25: 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 reduced in the fourth quarter of 2022 largely on account of lacklustre demand conditions, a weaker

<sup>2</sup> Credit availability = tight (-)/ loose (+)

Kwacha, and raw material shortages. Consequently, most business firms reported a fall in output, domestic sales, capacity utilisation, volume of sales and service, profitability, and demand for labour.

Economic outlook 12 months ahead is less optimistic as high production costs, exchange rate depreciation, and slow implementation of economic reforms are expected to undermine business confidence and potential investment. This notwithstanding, economic performance may strengthen on account of an improvement in copper output, successful debt restructuring, and increased foreign direct investment.

## 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).