

# Quarterly Survey of Business Opinions and Expectations



August 2024

Disclaimer:

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



**Bank of Zambia**



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## *Summary*

The findings from *August 2024 Survey of Business Opinion and Expectations* indicated a further slowdown in economic activity in the second quarter of 2024. The slowdown is largely due to continued negative spillovers of the drought in the agriculture and energy sectors, rising inflationary pressures and constrained consumer demand. Economic prospects for the third and fourth quarters of 2024, as well as the 12 months ahead, remain pessimistic due to continued electricity supply shortage, which is expected to further escalate firm costs. An expected decline in exports underpins expectations of a weaker exchange rate. This notwithstanding, activity is expected to be boosted by improved weather conditions, which would support crop production and reduced electricity rationing, as well as the positive outcomes of agricultural policy interventions currently being implemented. Foreign exchange inflows are also expected to rise as copper production increases, particularly at Mopani Copper Mine Plc and Konkola Copper Mine Plc.

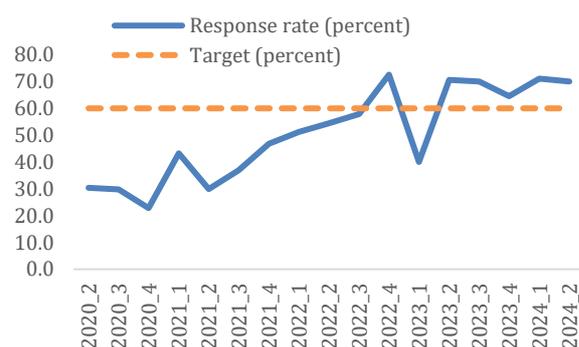
## 1.0 Introduction

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 next 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 2024 and expectations for the third quarter and 12 months ahead.

A total of 245 responses were received out of the 350 questionnaires administered. This represents a response rate of 70.0 percent compared to 71.1 percent achieved in the first quarter of 2024 (Chart 1 and Table 1).

**Chart 1: Response Rate**



Source: Bank of Zambia

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

Province	Frequency	Percent
Central	45	18
Copperbelt	40	16
Eastern	20	8
Lusaka	29	12
Luapula	22	9
Muchinga	18	7
Northern	24	10
Northwestern	14	6
Southern	17	7
Western	16	7
Total	245	100

Source: Bank of Zambia

The tourism sector had the highest number of responses (31 percent) followed by the service (20 percent) and wholesale and retail (18 percent) sectors. The construction sector remained the lowest, at 2 percent (Table 2).

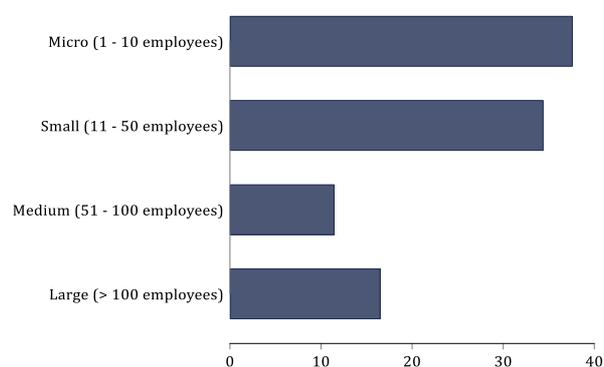
**Table 2: Distribution of Responses by Sector**

	Frequency	Percent
Manufacturing	38	16
Wholesale and Retail (Merchant)	45	18
Service	49	20
Tourism	75	31
Construction	6	2
Agriculture	32	13
Total	245	100

Source: Bank of Zambia

Based on the number of employees, most of the respondent firms were micro in size (38 percent) while large firms accounted for 17 percent of the sample (Chart 2).

**Chart 2: Distribution of Responses by Firm Size (percent)**



Source: Bank of Zambia

The rest of the Report is structured as follows. Section 2 presents opinions of firms about economic performance during the second quarter of 2024 as well as expectations for the third quarter of 2024 and 12 months ahead. Section 3 provides views on input costs, wages, and prices. Section 4 presents macroeconomic prospects 12 months ahead. Section 5 provides opinions on the impact of electricity shortages on enterprises. Section 6 concludes. A description of the survey methodology is provided in the appendix.

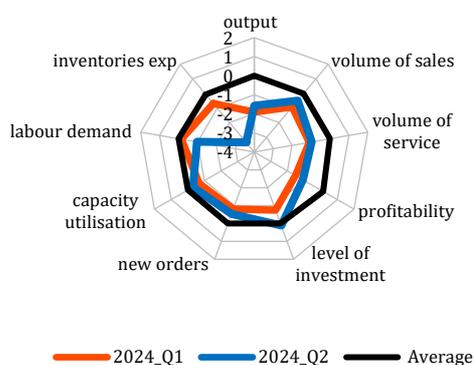
## 2.0 Current Economic Performance and Expectations

### ... electricity shortages continue to weigh on economic activity

Economic activity is reported to have slowed down further in the second quarter of 2024 largely due to sustained shortage of electricity supply. Consequently, output, new orders, volume of sales, volume of service, profitability, capacity utilisation and level of investment declined. Escalation of production costs due to electricity shortages and reduced

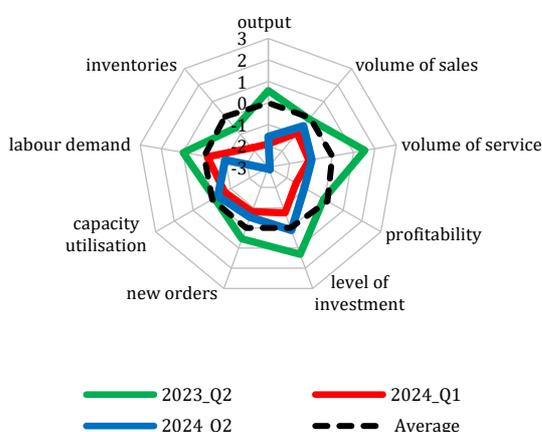
availability of agricultural inputs weighed on output for firms in the manufacturing and merchant sectors while increased cost of living, as prices of goods and services continued to rise, impeded consumer demand (Chart 3A and 3B).

**Chart 3A: Business Opinion Response Patterns**



Source: Bank of Zambia

**Chart 3B: Business Opinion Response Patterns**

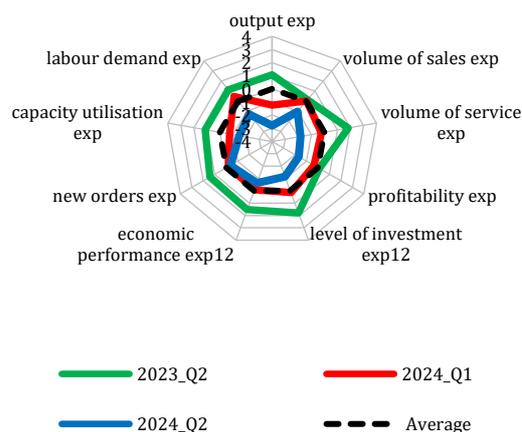


Source: Bank of Zambia

Adverse economic conditions are expected to continue in the third and fourth quarters of 2024. This is mainly on account of constrained electricity supply that is expected to continue increasing firms' operating costs and weighing on productivity. Reduced production and the subsequent decline in

exports and foreign exchange supply underpin expectations of a weak exchange rate and higher cost of imported inputs. As a result, output, profitability, labour demand, capacity utilisation, volume of service and volume of sales are expected to decline (Chart 4). However, some firms were optimistic and expect economic activity to improve on the back of significant progress made on external debt restructuring and the associated positive investor sentiments while firms in the tourism sector and along the Ndola – Lusaka Road expect demand to improve as construction gains momentum. Supply of maize grain in the post-harvest season is also expected to improve relative to the past quarter and moderate firm costs in the manufacturing sector.

**Chart 4: Business Expectations Response Patterns**



Source: Bank of Zambia

Opinions and expectations about economic performance over the next 12 months were mixed. Those who were pessimistic, and were in the majority, attributed this primarily to persistent inflationary pressures caused by continued reductions in output and rising operational costs due to prolonged electricity loadshedding, Kwacha's persistent depreciation, and uncertainty in fuel prices. Positive sentiments were largely based on expectations of improved weather conditions, which would support crop production recovery and a significant reduction in load management, as well as positive outcomes

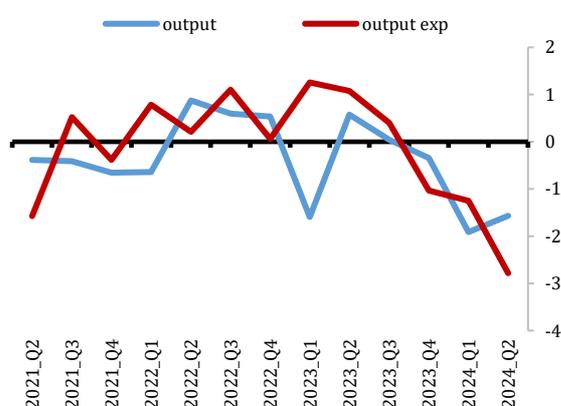
from agricultural policy interventions. Foreign exchange inflows are also expected to rise as copper production increases, particularly at Mopani Copper Mine Plc (MCM) and Konkola Copper Mine Plc (KCM).

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

*(Net balance, -0.35; Q1 2024, -0.40)*

As anticipated, output contracted further in the second quarter, reflecting lower demand and higher production costs attributed to the current power supply deficit (Chart 5). A shortage of maize grain also continued to affect production amongst private milling companies. In the next quarter, output is expected to remain weak, constrained by loadshedding, particularly in the manufacturing sector.

**Chart 5: Opinion on Output**



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

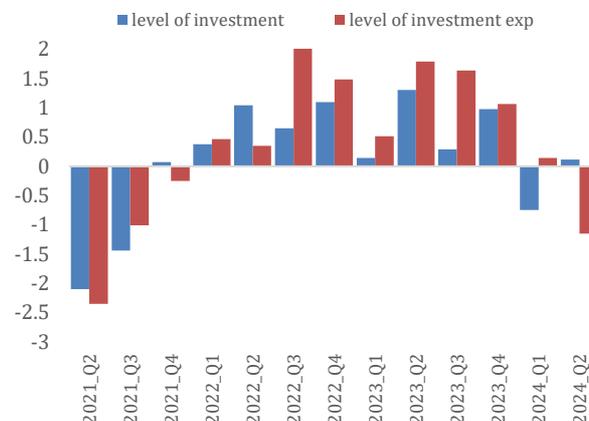
## 2.2 How was your firm's level of investment?

*(Net balance, 0.01; Q1 2024, -0.12)*

Total investments rose during the second quarter due to renovations and expansionary projects undertaken, particularly in the tourism and agriculture sectors (Chart 6). Investments in alternative energy sources, machinery and irrigation equipment further augmented total investment. However, total investments are expected to deteriorate in the

third quarter on account of higher cost of credit and anticipated further rise in operating costs (due to continued electricity rationing) coupled with the reduction in demand.

**Chart 6: Level of Investment**



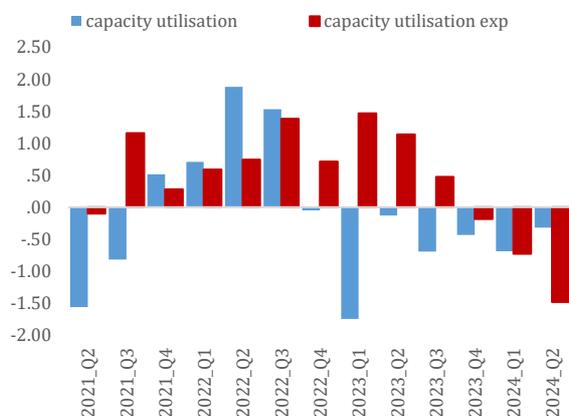
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, -0.24; Q1 2024, -0.31)*

Capacity utilisation continued to decline, albeit at a slow pace, as production was constrained by the reduced operating hours occasioned by the on-going electricity rationing (Chart 7). Further, a reduction in construction activity impeded capacity utilisation.

**Chart 7: Capacity Utilisation**



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

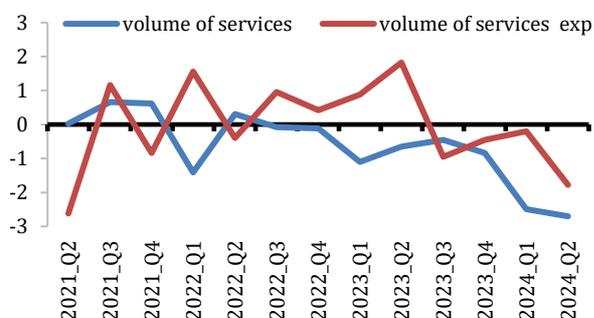
In the third quarter, capacity utilisation is expected to further decline on account of electricity shortage and expectations of reduced economic activity.

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

*(Net balance, -0.35; Q1 2024, -0.38)*

The volume of services declined in the second quarter, particularly in the tourism sector, owing to higher operating costs, increased competition, and lower consumer demand (Chart 8). This was contrary to firm expectations in the previous quarter.

**Chart 8: Volume of Service**



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

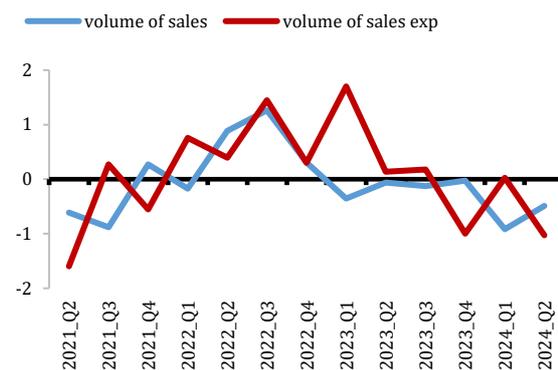
The volume of services is expected to deteriorate further in the third quarter due to the poor performance of firms in the tourism sector attributed to higher operating costs amid stiffer competition and lower demand.

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

*(Net balance, -0.46; Q1 2024, -0.59)*

Firms in the merchant sector generally reported a decline in the volume of sales attributed to lower demand and increased competition while those in the production sector, particularly bakery and confectionary, attributed the reduction in sales to lower output due to reduced operating hours (Chart 9).

**Chart 9: Volume of Sales**



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

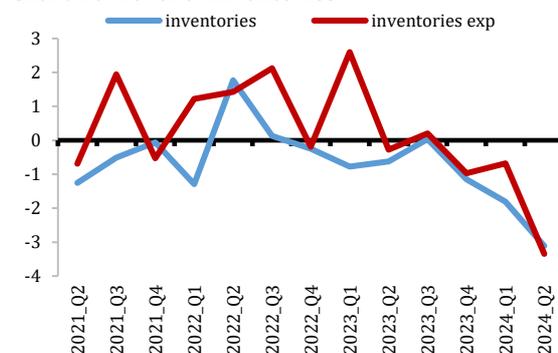
Sales volumes are expected to deteriorate further in the third quarter owing to the continued loadshedding and lower demand.

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

*(Net balance, -0.47; Q1 2024, -0.30)*

Inventories of both inputs and finished products declined in the second quarter on account of subdued consumer demand as well as higher production costs due to loadshedding and elevated input costs, especially imported (Chart 10). For the agriculture sector, low inventories were due to low seasonal demand while firms in the manufacturing sector attributed the decline in inventories to less than optimal production due to reduced operating hours and the weaker exchange rate. Inventories are expected to further decline in the next quarter as the impact of load shedding on production persist.

**Chart 10: Level of inventories**



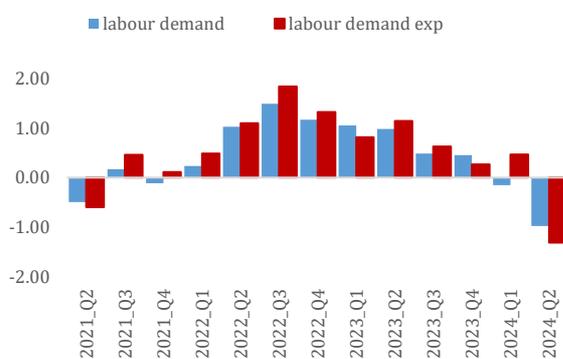
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, -0.22; Q1 2024, -0.09)*

Demand for labour deteriorated further in the second quarter with most firms reporting sub-optimal production due to the reduction in hours of operation arising from electricity rationing (Chart 11). Seasonal reduction in labour demand, particularly in the agriculture sector, coupled with reduced expansionary business activities across sectors also contributed to lower hirings. In addition, the reduction in the work force was due to some firms in the tourism and merchant sectors winding down operations.

**Chart 11: Labour Demand**



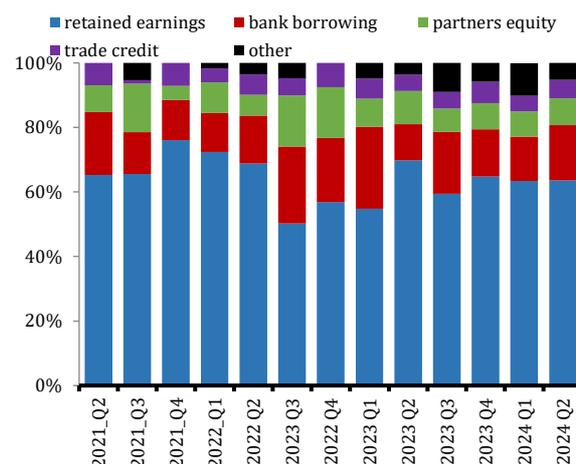
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

In the next quarter, demand for labour across all the sectors is expected to deteriorate further on account of sustained electricity shortages and low demand.

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

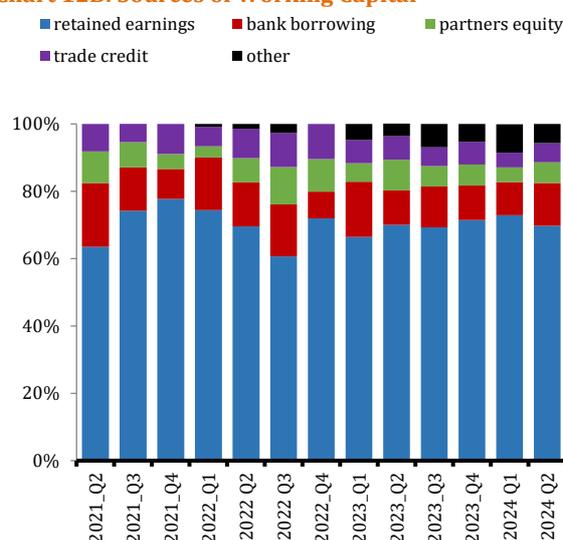
Retained earnings continued to be the main source of financing for working capital and investment, followed by bank borrowing and partner equity (Charts 12A and 12B). The share of trade credit and bank borrowing edged up owing to increased borrowing appetite as investments rose. However, other sources of investment and working capital finance (grants, prepayments received and settled against future sales as well as shareholder loans) reduced.

**Chart 12A: Sources of Investment Finance**



Source: Bank of Zambia

**Chart 12B: Sources of Working Capital**



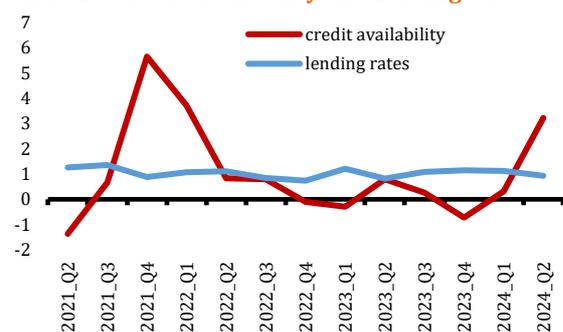
Source: Bank of Zambia

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

*(Credit Availability, -0.15; Q1 2024, -0.57)  
(Lending Rates, 0.82; Q1 2024, 0.88)*

Credit conditions, though tight, improved in the second quarter due to the increase in loans on offer from financial institutions (Chart 13). This was augmented by Government provision of credit through the Constituency Development Fund and Citizens Economic Empowerment Commission. Lending rates marginally reduced though stringent collateral requirements continued to limit accessibility.

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



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

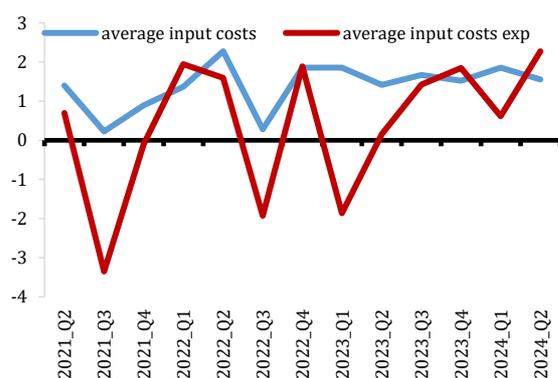
### 3.0 Evolution of Costs, Wages and Prices

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

*(Net balance, 0.62; Q1 2024, 0.67)*

Average input costs continued to rise in the second quarter (Chart 14). Transportation costs were higher due to the increase in fuel prices while reduced supply of maize grain contributed to the continued rise in prices of raw materials. Input costs are expected to rise further in the next quarter on account of persistent currency weakness, load management and high fuel prices.

**Chart 14: Average Input Costs**



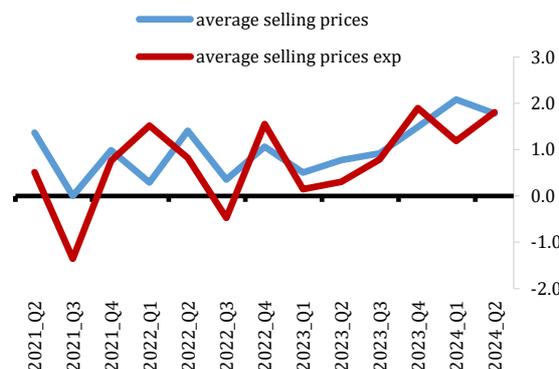
Note: The line at zero (0.0) represents the long-term average.  
 Source: Bank of Zambia

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

*(Net balance, 0.40; Q1 2024, 0.45)*

Surveyed firms' average selling prices rose further in the second quarter, albeit at a slower rate, as input costs increased (Chart 15). The shortage of maize grain among private milling companies also contributed to the increase in prices of products such as mealie meal. Further, low supply of some metal-related raw materials due to limited production arising from loadshedding pushed selling prices higher. These factors are expected to maintain upward pressure on output prices in the third quarter.

**Chart 15: Evolution of Average Selling Prices**



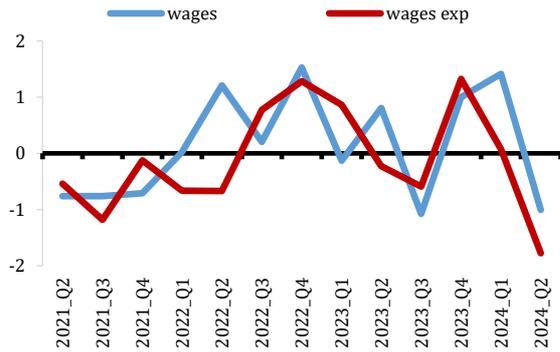
Note: The line at zero (0.0) represents the long-term average  
 Source: Bank of Zambia

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

*(Net balance 0.06; Q1 2024, 0.26)*

Respondents indicated a marginal increase in the wage bill despite a reduction in the demand for labour (Chart 16). The rise in the wage bill was largely on account of annual salary reviews.

**Chart 16: Evolution of Wages**



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

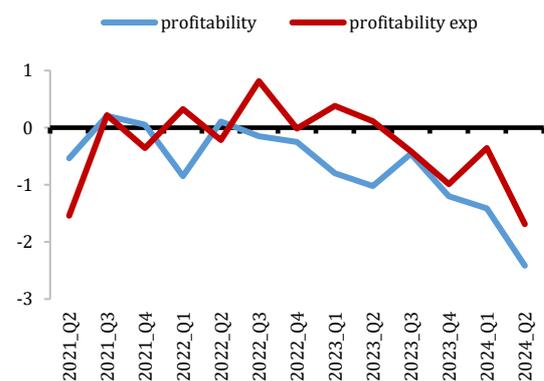
Wages are expected to remain largely unchanged in the third quarter as labour demand reduces. Firms do not anticipate wage reviews in the next quarter.

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

*(Net balance, -0.49; Q1 2024, -0.60)*

Profit margins continued to reduce on account of higher costs of production due to loadshedding, higher input costs and reduced demand (Chart 17). Firms expect profitability to reduce further in the next quarter as the same factors persist.

**Chart 17: Profitability**



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

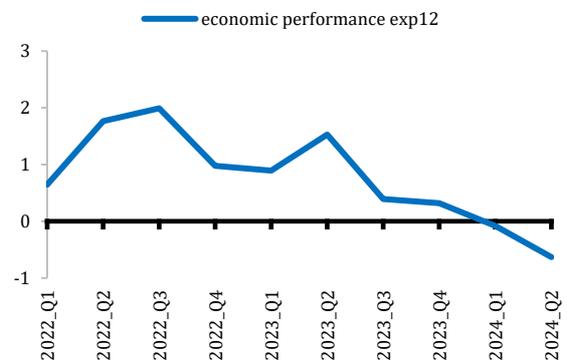
## 4.0 Macroeconomic Prospects One Year Ahead

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

*(Net balance, -0.01; Q1 2024, 0.16)*

Respondents' prospects about economic activity in the next 12 months were marginally pessimistic (Chart 18). Expectations were dampened largely by the power deficit, which is expected to further constrain firm production and escalate operating costs. Due to high output prices, consumer demand is anticipated to remain weak. Nonetheless, increased production in the mining sector, improvement in weather conditions and electricity supply as well as recovery of the agriculture sector are expected to boost economic activity.

**Chart 18: Economic Performance in the Next 12 Months**



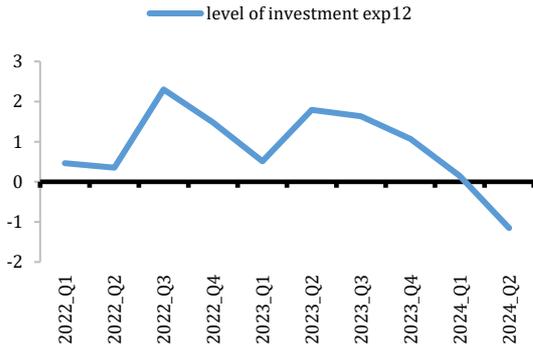
Note: The line at zero (0.0) represents the long-term average  
 Source: Bank of Zambia

### 4.2 What is your expectation of the level of investment in the next 12 months?

*(Net balance, 0.05; Q1 2024, 0.20)*

Generally, firms are less optimistic about investment plans in the next 12 months, citing economic uncertainty, anticipated lower consumer demand and higher production costs, which are expected to negatively affect profitability and deter business expansion (Chart 19).

**Chart 19: Level of Investment in the Next 12 Months**



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

Some firms, however, are hopeful that the end of loadshedding and return to full operational capacity at MCM and KCM in the next twelve (12) months would enable them increase production and expand their businesses.

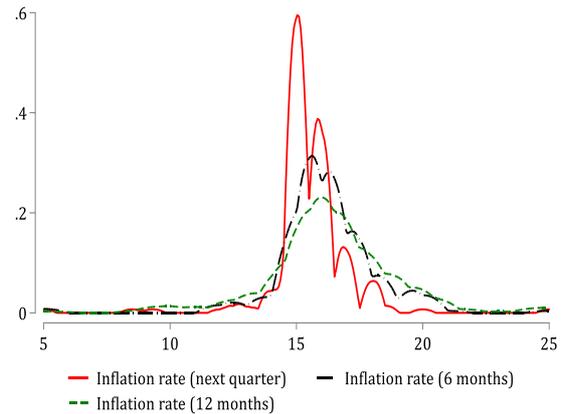
**4.3 What do you expect the price level to be over the next quarter?**

*(Net balance, 0.92; Q1 2024, 0.76)*

Prices are expected to continue rising in the third quarter as firms face higher operating costs due to continued electricity shortage and a weak Kwacha (Charts 20, 21 and 22). Past price increases and higher costs of accessing credit also explain the anticipated rise in inflation, expected to average 15.5 percent.

In the next 6 months, prices are expected to remain elevated with inflation averaging 16.2 percent. This is largely premised on escalating costs of production on account of electricity rationing, high fuel prices (as firms utilize alternative sources of energy, namely diesel/petrol generators) and a weaker currency. Firms expect inflation to rise even further by the end of 12 months to an average of 16.3 percent due to the expected further depreciation of the Kwacha and higher cost of credit.

**Chart 20: Kernel Density Plot - Expected Inflation Rate at the end of the Next Quarter, 6 and 12 months**



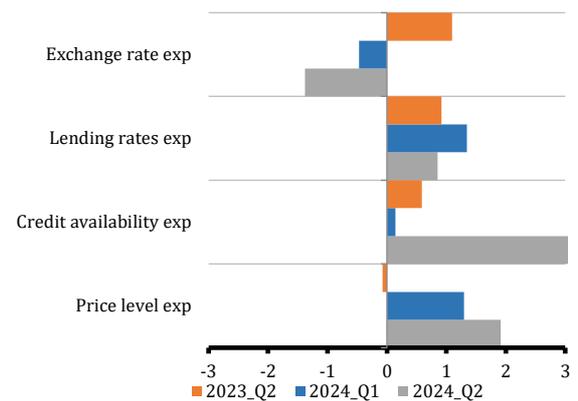
**Source: Bank of Zambia**

**Chart 21: Inflationary Expectations Next Quarter**



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

**Chart 22: Inflation, Exchange Rates and Lending Rates Expectations**



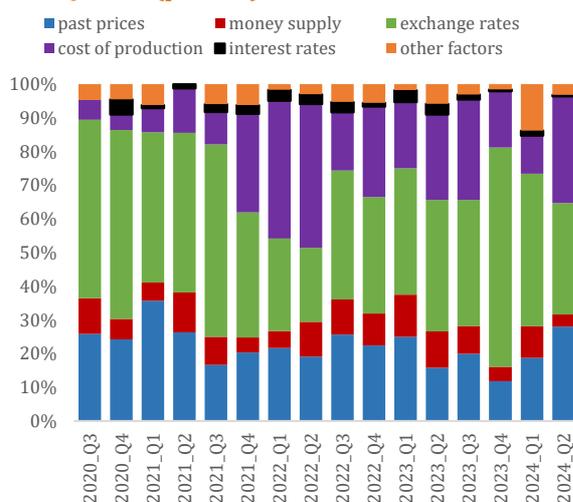
**Notes:**  
 Exchange rate = appreciation, strong (+)/depreciate, weak (-)  
 Lending rates = increase, high (+)/decrease, low (-)  
 Credit availability = tight (-)/ loose (+)  
 Inflation expectations = increase, high (+)/decrease, low (-)

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

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

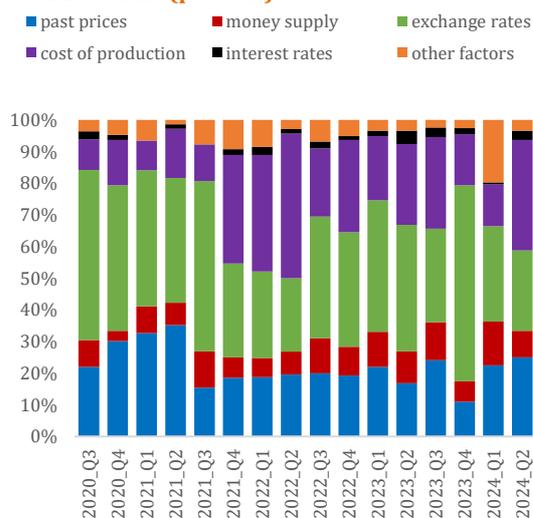
The high cost of production, a depreciated currency and past inflation remain key drivers of inflation expectations in the third quarter and 12 months ahead (Charts 23A and 23B). Production costs are expected to continue escalating largely on account of electricity rationing.

**Chart 23A: Key Drivers of Inflationary Expectations Next Quarter (percent)**



Source: Bank of Zambia

**Chart 23B: Key Drivers of Inflationary Expectations next 12 Months (percent)**



Source: Bank of Zambia

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

*(Net balance, 0.66; Q1 2024, 0.84)*

Lending rates are expected to remain high in the third quarter as firms anticipate further tightening of monetary policy by the Bank of Zambia to counter rising inflation (Chart 24). Further, economic uncertainty is expected to raise perceived loan default rate and lead to elevated interest rates in the next quarter.

**Chart 24: Lending Rates Expectations Next Quarter**



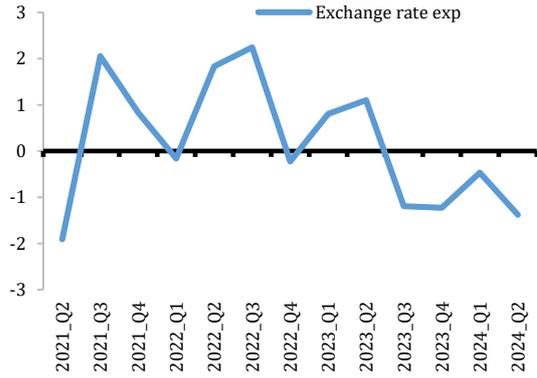
Note: The line at zero (0.0) represents the long-term average  
Source: Bank of Zambia

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

*(Net balance, -0.67; Q1 2024, -0.37)*

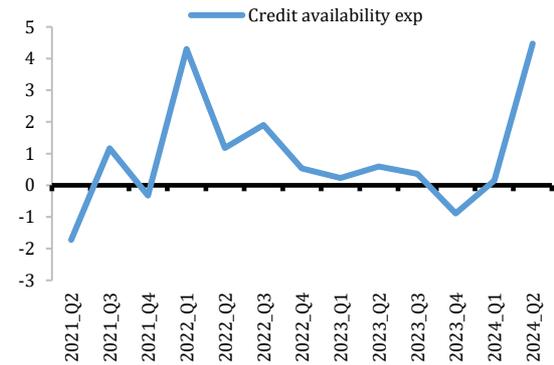
The Kwacha is expected to depreciate further against the US dollar in the third quarter due to constrained foreign exchange supply (Chart 25). This is attributed to the rise in demand for foreign exchange as imports increase amidst declining exports due to the drought. Mining production, a key source of foreign exchange supply, is not expected to increase substantially in the next quarter. Some firms were, however, optimistic that progress made in external debt restructuring and support from the IMF and World Bank would help strengthen the Kwacha. As a result, firms expect the Kwacha to be valued at approximately K26.80 per US dollar at the end of the next quarter (Chart 26).

**Chart 25: Exchange rate expectations next quarter**



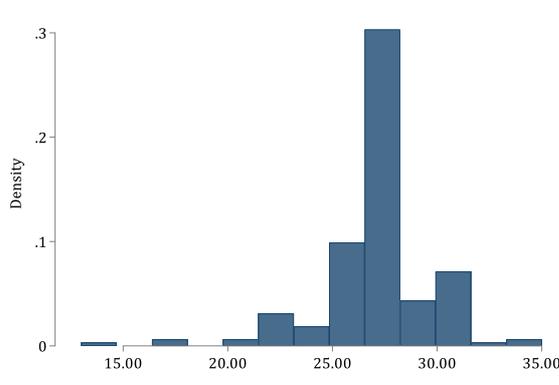
Note: The line at zero (0.0) represents the long-term average  
 Source: Bank of Zambia

**Chart 27: Credit availability expectations next quarter<sup>1</sup>**



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

**Chart 26: Histogram - Expected Exchange Rate at the end of the Next Quarter (Q3 2024)**



Source: Bank of Zambia

## 5.0 Impact of Electricity Shortages on Enterprises

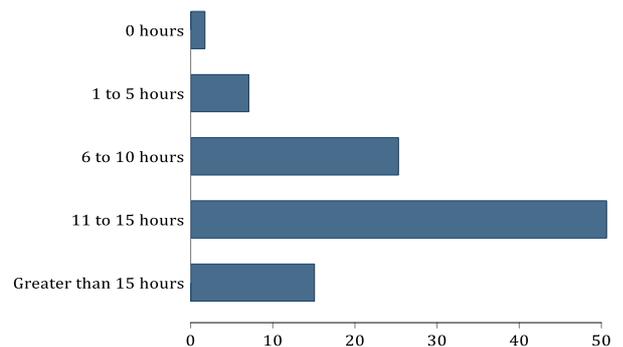
Almost all the firms (96 percent) were affected by electricity rationing (Chart 28). The few firms that indicated not having been affected cited operating off-grid or being located near a critical infrastructure such as a hospital. Most firms (51 percent) experienced between 11 to 15 hours of loadshedding per day, broadly in line with the announced official hours of loadshedding (12 hours). However, 15 percent of firms, mostly in Muchinga Province and in the tourism sector, reported more than 15 hours of daily loadshedding.

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

*(Net balance, -0.07; Q1 2024, -0.56)*

Credit conditions are expected to remain tight, though with slight improvement, due to high collateral requirements and the anticipated further tightening of monetary policy. This is expected to reduce liquidity in the economy, thereby impacting credit availability (Charts 22 and 27).

**Chart 28: Hours of Loadshedding**



Source: Bank of Zambia

Due to the rationing of electricity, firms experienced a reduction in output/sales and clients, increased operating costs due to the use of diesel generators and reduced operating hours (Table 3). Those in the manufacturing and agriculture sector

<sup>1</sup> Credit availability = tight (-)/ loose (+)

reported a decline in output while tourism operators noted that clients had reduced due to loadshedding. The construction sector was largely impacted by higher production costs partly induced by power rationing.

**Table 3: Effects of Loadshedding by Sector (percent respondents)**

	Operating hours	output/sales	Clients	Wastage	Costs
Manufacturing	29	49	0	9	14
Merchants	14	36	17	7	26
Service	7	36	12	10	36
Tourism	0	25	39	6	31
Construction	20	0	20	20	40
Agriculture	18	46	4	11	21
Total	11	35	19	8	27

Source: Bank of Zambia

While most businesses relied on alternative sources of energy such as generators and solar or reverted to manual operations, some businesses, particularly in the manufacturing that required more energy capacity, had no coping strategy in place and suspended production during loadshedding period.

In the next quarter, firms expect loadshedding to further increase their operating costs due to high fuel expenses as they continue to use alternative power sources (Chart 29). Electricity rationing is also expected to result in reduced sales (partly due to higher output prices), attributed to lower patronage. These effects may be exacerbated by the projected increase in the hours of loadshedding as the shortage of electricity worsens.

**Chart 29: Word Cloud – Loadshedding Impact Next Quarter**



Note: A word cloud is a visual representation of respondents' qualitative responses. It emphasizes the popularity of words or phrases by making commonly used words appear larger or bolder than others around them.

Source: Bank of Zambia

## 6.0 Conclusion

The decline in economic activity in the second quarter of 2024 was attributed to electricity rationing, continued rise in inflationary pressures and a weak exchange rate. These factors are expected to have an impact on economic activity in the next quarter of 2024 and over the next 12 months. On the upside, favorable weather conditions, an increase in copper production and exports due to the return to full operational capacity at KCM and MCM, coupled with investment inflows following completion of external debt restructuring, are expected to boost 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 based on 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 Provinces (Mongu, Kaoma and Kalabo).

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).