

Quarterly Survey of Business Opinions and Expectations



February 2024

Disclaimer:

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



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Summary

The *2024 February Survey of Business Opinion and Expectations* indicated an improvement in economic activity in the fourth quarter of 2023. While businesses grappled with exchange rate depreciation pressures, rising inflation and input costs as well as elevated borrowing costs, economic activity, particularly sales, was boosted by seasonal festive demand. Nonetheless, economic prospects for the first quarter of 2024 and 12 months ahead are pessimistic owing to persistent demand pressures in the foreign exchange market resulting in sustained depreciation of the exchange rate and rising inflation. This is in addition to potential negative El Niño weather effects and protracted external debt negotiations. This notwithstanding, higher copper prices and resolution of challenges at Mopani and Konkola Copper Mines may spur growth.

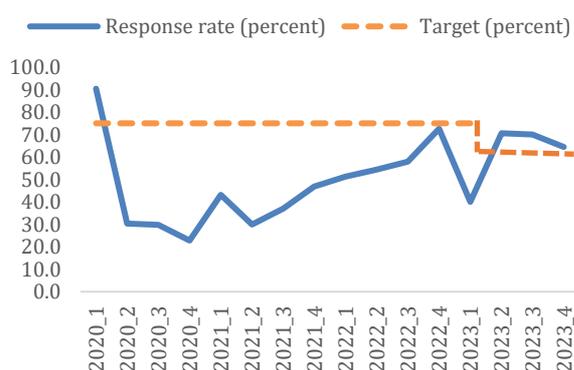
1.0 Introduction

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 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 fourth quarter of 2023 and expectations for the first quarter of 2024 and 12 months ahead.

A total of 226 responses were received out of the 350 questionnaires administered. This represents a response rate of 64.5 percent compared to 70.0 percent achieved in the third quarter of 2023, but above the threshold of 60 percent (Chart 1).

Chart 1: Response Rate (percent): 2020Q1-2023Q4¹



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 (Kabwe,Mkushi)	49	22
Copperbelt	38	17
Lusaka	24	11
Luapula	23	10
Eastern	20	9
Northwestern	17	8
Muchinga	16	7
Northern	14	6
Southern	13	6
Western	12	5
Total	226	100

Source: Bank of Zambia

The tourism sector had the highest number of responses (31 percent). This was followed by the services (21.0 percent) and merchant (20 percent) sectors. The construction sector remained the lowest, at 3 percent (Table 2).

Table 2: Distribution of Responses by Sector

	Frequency	Percent
Tourism	70	31
Service	47	21
Merchant	45	20
Manufacturing	33	15
Agriculture	24	11
Construction	7	3
Total	226	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 2023 as well as expectations for the first quarter of 2024 and 12 months ahead. Section 3 provides opinions on input costs, wages and prices. Section 4 presents macroeconomic prospects 12 months ahead. Section 5 concludes. A description of the survey methodology is provided in the appendix.

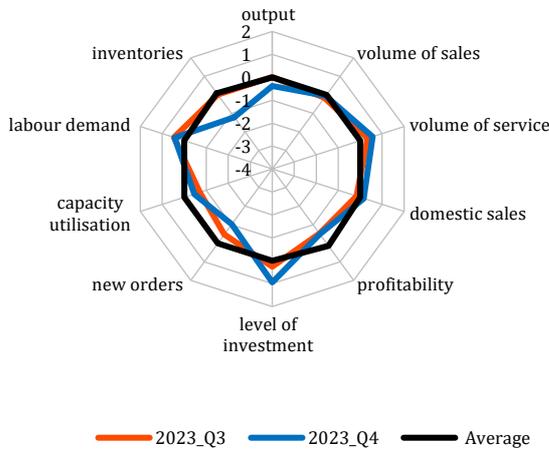
¹ The target response rate was adjusted to 60 percent from 75 percent on account of the change in the data collection mode.

2.0 Current Economic Performance and Expectations

... economic activity boosted by festive demand while protracted external debt negotiations continue to cloud the outlook

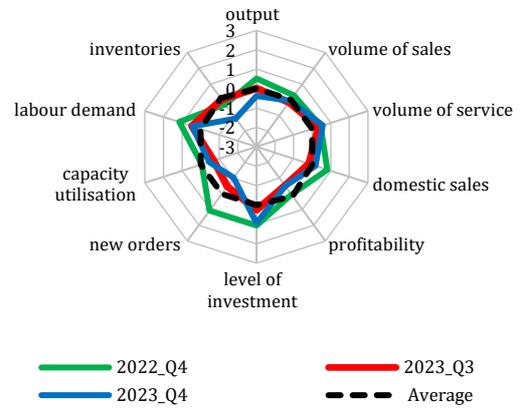
Economic activity improved in the fourth quarter of 2023 stimulated by seasonal festive demand. Consequently, domestic sales, capacity utilisation, volume of sales, volume of service, profitability and level of investment increased while inventories declined. The pick-up in business activity was despite a considerable depreciation of the Kwacha against the US dollar and an increase in input costs which weighed on manufacturing output and new orders (Chart 2A and 2B).

Chart 2A: Business Opinion Response Patterns



Source: Bank of Zambia

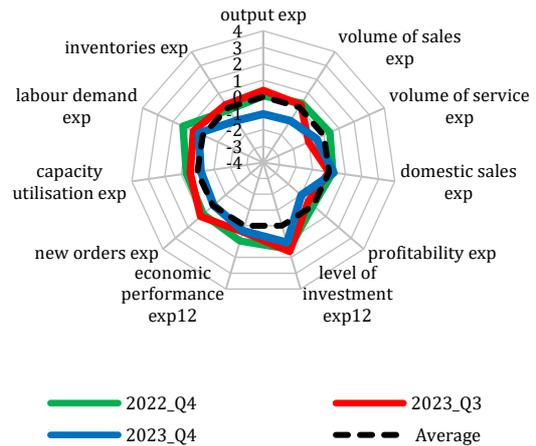
Chart 2B: Business Opinion Response Patterns*



Source: Bank of Zambia

However, in the first quarter of 2024, economic activity is expected to be broadly sluggish due to waning seasonal festive demand, a weaker exchange rate and high input costs (Chart 3). This notwithstanding, activity in the services sector may remain upbeat as financial service providers anticipate higher demand for loans.

Chart 3: Business Expectations Response Patterns



Source: Bank of Zambia

Opinions and expectations about economic outlook 12 months ahead deteriorated for the second consecutive quarter largely attributed to the sustained depreciation of the Kwacha, rising inflation, elevated commercial bank lending rates, surging production costs and

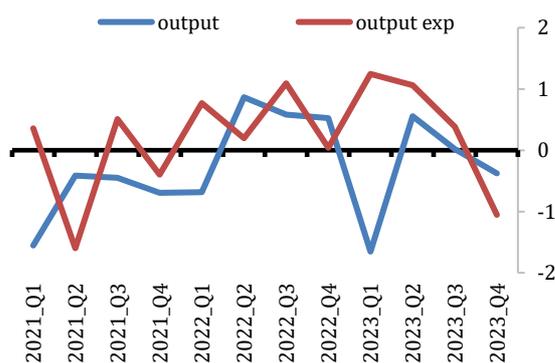
delays in securing debt restructuring agreement with commercial creditors. In addition, negative El Niño weather effects could potentially weigh on activity.

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

(Net balance, -0.14; Q3 2023, -0.07)

In line with expectations, output contracted further in the fourth quarter, reflecting sustained pressures from a weaker Kwacha and rising input costs (Chart 4). In addition, most milling companies reduced production owing to stiff competition from Eagles Milling Company operated by Zambia National Service. The declining trend in output is expected to continue in the first quarter of 2024.

Chart 4: Opinion on Output



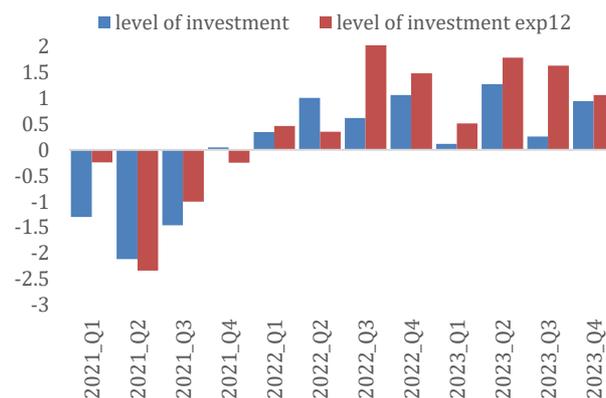
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

2.2 How was your firm's level of investment?

(Net balance, 0.13; Q3 2023, 0.03)

Investment rose during the fourth quarter of 2023, attributed to increased working capital requirements in view of the sharp depreciation of the Kwacha against the US dollar (Chart 5). In addition, some tour operators ramped up investment in buildings to meet demand for conference facilities.

Chart 5: Level of Investment



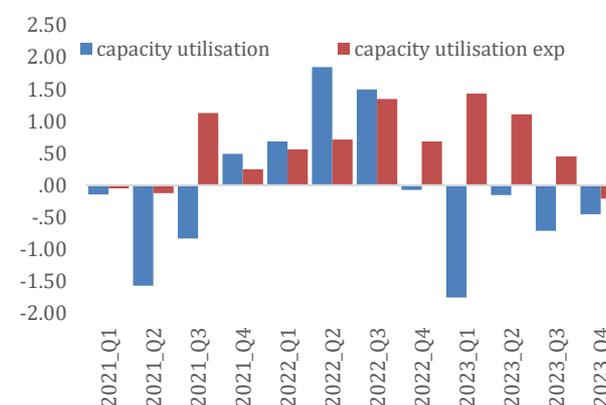
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.26; Q3 2023, -0.31)

Capacity utilisation improved largely underpinned by firming construction activity due to further disbursement of funds for projects under the Constituency Development Fund (Chart 6).

Chart 6: Capacity Utilisation



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

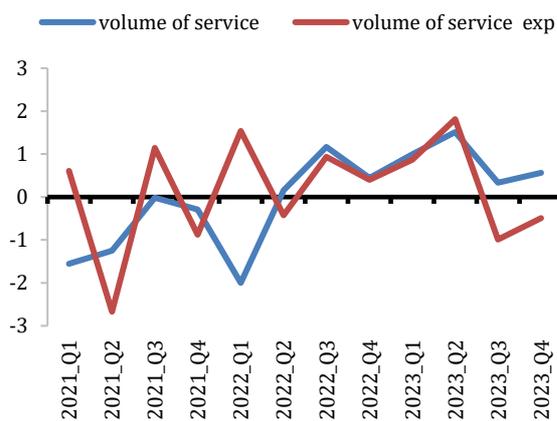
However, a decline is anticipated in the first quarter of 2024 as the exchange rate depreciation and rise in input costs persist. The slowdown in construction as rainfall activity increases is expected to contribute to lower capacity utilisation.

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

(Net balance, 0.01; Q3 2023, -0.04)

Contrary to expectations, the volume of services improved during the fourth quarter of 2023 mainly spurred by higher tourism activity during the festive period (Chart 7).

Chart 7: Volume of Service



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

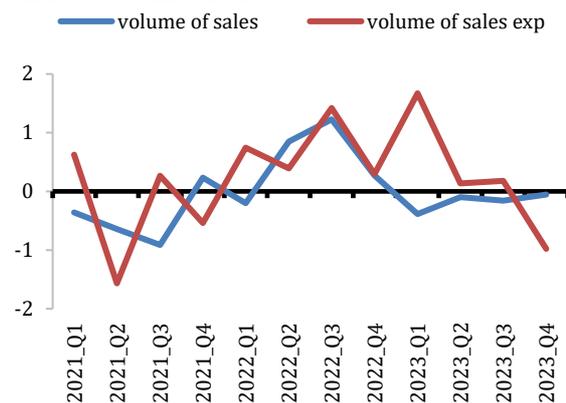
In the subsequent quarter, the volume of service is expected to rise further as most financial service providers foresee an increase in demand for loans to fulfill working capital requirements. The recently hired public workers are likely to augment demand for loans. Further, as businesses resume operations after the festive season industrial break, most firms in the tourism sector anticipate a surge in demand for conference facilities.

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

(Net balance, -0.32; Q3 2023, -0.35)

Firms in the wholesale and retail trade sector generally reported a rise in the volume of sales largely supported by seasonal festive demand (Chart 8).

Chart 8: Volume of Sales



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

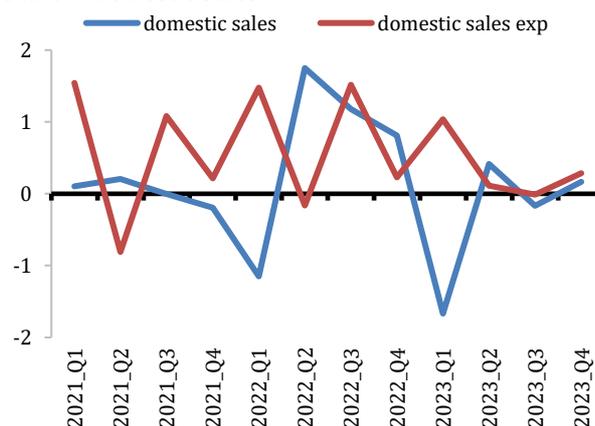
Nonetheless, a reduction in demand after the festive period, persistent exchange rate depreciation and elevated fuel prices may moderate sales in the first quarter of 2024.

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

(Net balance, -0.04; Q3 2023, -0.10)

Domestic sales slightly improved during the fourth quarter of 2023 on account of seasonal festive demand and improved yields for irrigated crops (Chart 9). The upward trend in domestic sales is expected to continue in the first quarter of 2024.

Chart 9: Domestic Sales



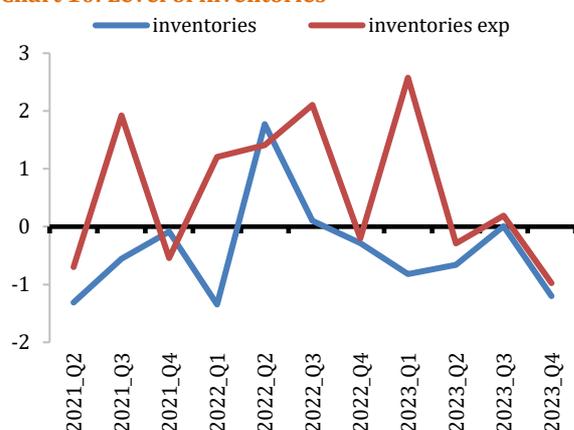
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.22; Q3 2023, -0.07)

In line with the uptick in demand, most merchants reported a drop in inventories (Chart 10). In addition, constrained manufacturing production resulted in lower input stocks. In the first quarter of 2024, continued reduction in manufacturing activity due to escalated input costs and shrinking demand will underpin a further decline in inventories.

Chart 10: Level of inventories



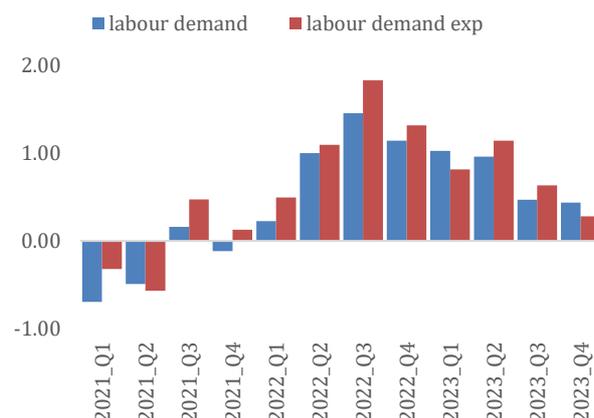
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.00; Q3 2023, 0.00)

Demand for labour remained unchanged as most firms contended with high operating costs owing to the depreciation of the Kwacha against the US dollar (Chart 11). Consequently, an increase in staffing levels was considered undesirable as this would add to elevated expenses.

Chart 11: Labour Demand



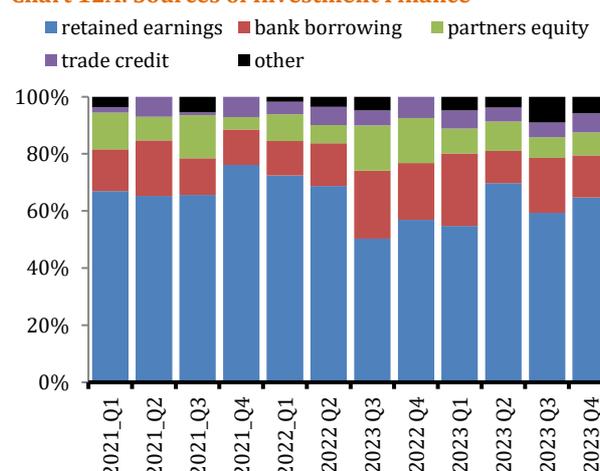
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

In the subsequent quarter, hiring appetite by firms is expected to reduce as operating costs increase on the back of a weaker Kwacha. In addition, expectations of slowing economic activity may reduce labour demand.

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

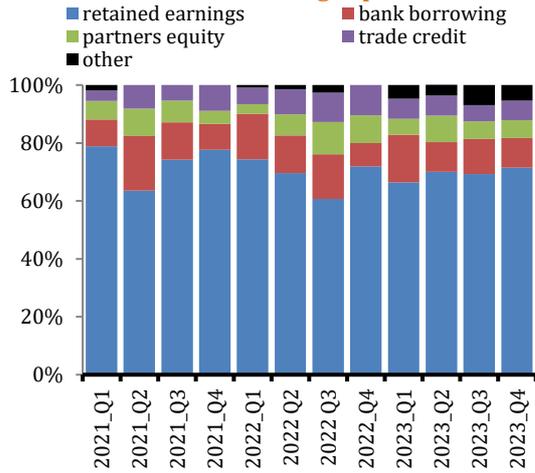
Retained earnings continued to be the main source of financing for working capital and investment followed by bank borrowing (Charts 12A and 12B). However, the share of bank borrowing moderated owing to the rise in borrowing costs.

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



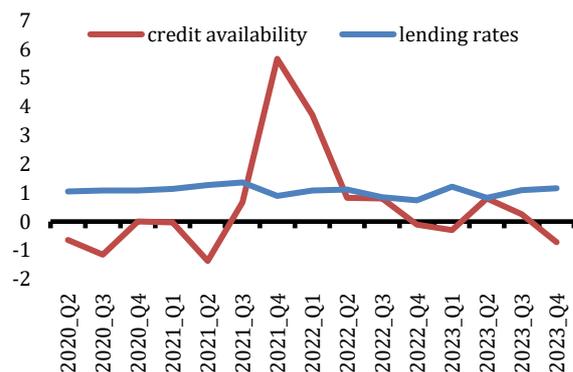
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Credit Availability, -0.72; Q3 2023, -0.58)
(Lending Rates, 0.89; Q3 2023, 0.87)

Tight credit conditions persisted in the fourth quarter as higher lending rates and stringent collateral requirements continued to limit accessibility (Chart 13). The rise in lending rates is reflective of elevated credit risk and adjustment in the Monetary Policy Rate (MPR) to 11.0 percent in November from 10.0 percent in August 2023.

Chart 13: Credit Availability and Lending Rates



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

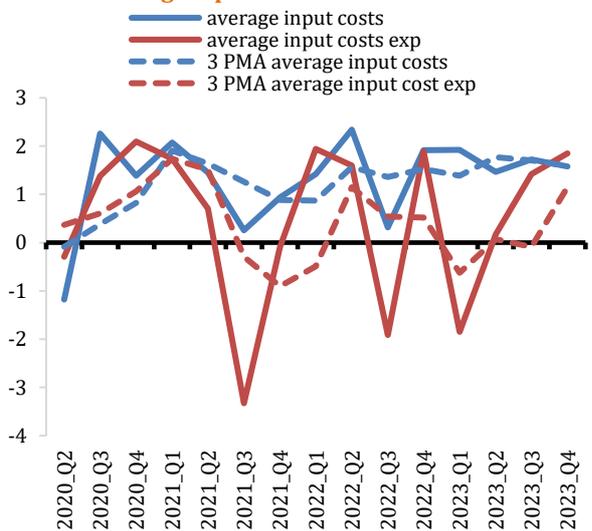
3.0 Evolution of Costs, Wages and Prices

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

(Net balance, 0.71; Q3 2023, 0.64)

Input costs accelerated during the fourth quarter of 2023 and are likely to continue rising in the subsequent quarter due to the depreciation of the Kwacha, a higher wage bill, elevated fuel prices and rising interest rates (Chart 14). In addition, firms in the milling industry grappled with sustained rise in maize grain prices, a key input in production.

Chart 14: Average Input Costs



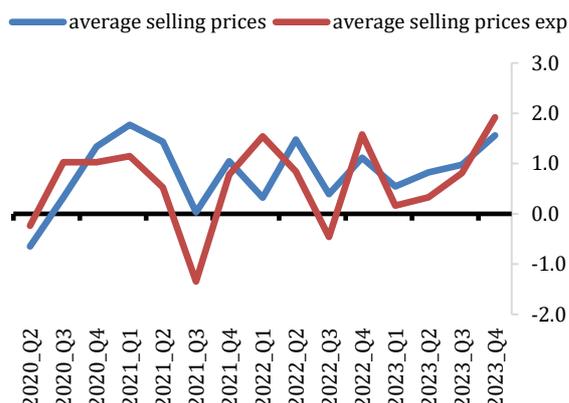
Note: The line at zero (0.0) represents the long-term average.
 Period Moving Average (PMA) is a 3-month moving average.
Source: Bank of Zambia

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

(Net balance, 0.34; Q3 2023, 0.24)

Against the backdrop of a persistently weak Kwacha and rising input costs, upward pricing pressures intensified during the fourth quarter (Chart 15). These factors are expected to lead to a further increase in selling prices in the first quarter of 2024. In addition, prices of financial products are likely to rise further on anticipation of a hike in the Monetary Policy Rate to curb inflation.

Chart 15: Evolution of Average Selling Prices



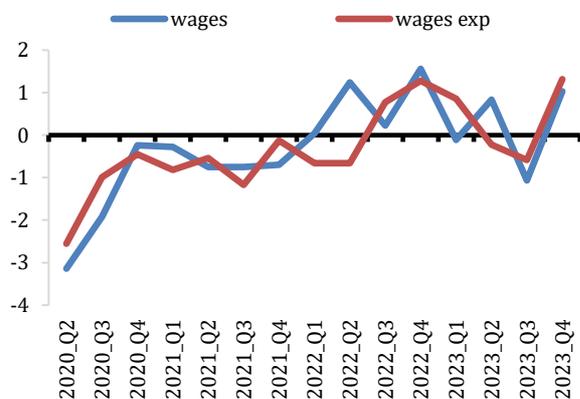
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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

(Net balance 0.23; Q3 2023, 0.05)

Despite labour demand remaining unchanged, the wage bill increased, driven by the upward adjustment of cost-of-living as well as payment of gratuity and end of year bonus (Chart 15).

Chart 16: Evolution of Wages



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

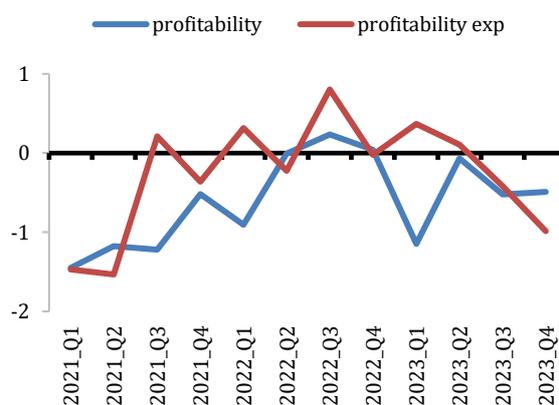
In the first quarter of 2024, a further rise in the wage bill is foreseen largely on account of the revision to the minimum wage. In November 2023, Cabinet approved revised minimum wage and conditions of service expected to come into effect on January 1, 2024. In addition, scheduled annual salary review will contribute to a higher wage bill.

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

(Net balance, -0.35; Q3 2023, -0.36)

In line with increased sales, profitability improved (Chart 17). In addition, the majority of financial service providers attributed the rise in profitability to higher interest income from investment in Government securities and growth in the value of the loan book.

Chart 17: Profitability



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

However, profitability is expected to reduce in the first quarter of 2024 as festive demand moderates amid heightened input cost pressures and persistent depreciation of the Kwacha.

4.0 Macroeconomic Prospects One Year Ahead

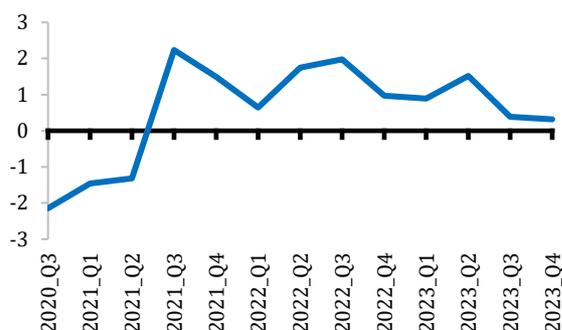
4.1 What is your expectation of the performance of the economy in the next 12 months?

(Net balance, 0.29; Q3 2023, 0.31)

Optimism about economic activity one year ahead remains weak on account of the persistence in inflation, depreciation of the Kwacha against the US dollar, higher cost of credit and possible adverse El Niño weather effects (Chart 18). In addition, high uncertainty about the resolution of commercial external debt clouds the outlook. This notwithstanding, mining sector performance may improve with the

resolution of operational challenges at Mopani and Konkola Copper Mines.

Chart 18: Economic Performance in the Next 12 Months



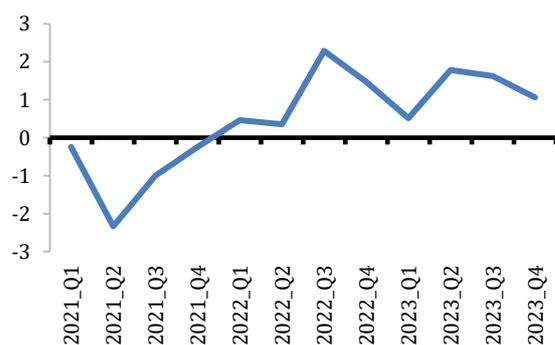
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.30; Q3 2023, 0.37)

Investment appetite 12 months ahead is likely to be negatively impacted by increased input costs, high cost of credit and uncertainty about the economic outlook due to lengthy debt negotiations with external private creditors (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

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

(Net balance, 0.85; Q3 2023, 0.81)

A surge in inflationary pressures is projected in the first quarter of 2024 mainly due to the continued unfavourable performance of the Kwacha against the US dollar. As a result, inflation is expected to average 13.8 percent (Table 3; Charts 20 and 21).

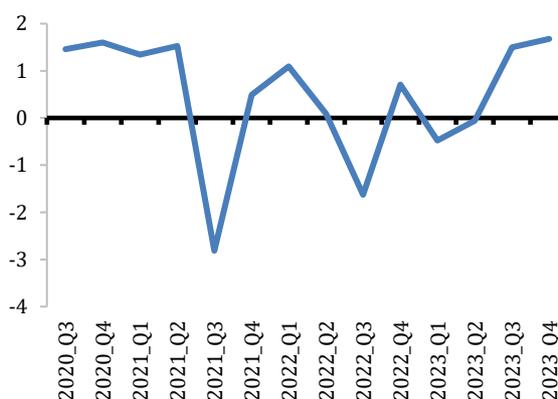
Over the next 6 months, the rise in inflation is expected to persist owing to a weaker Kwacha and potential rise in food prices should the predicted negative effects of the El Niño weather phenomenon materialise. Nonetheless, successful commercial external debt restructuring may strengthen the Kwacha and ease inflationary pressures.

Table 3: Expected Inflation Rate at the end of the Next Quarter (Q4 2023)

Range	Frequency	Percent
1-5	6	4
6-10	13	8
11-15	120	75
16-20	12	7
21-25	8	5
26-30	2	1
Total	161	100

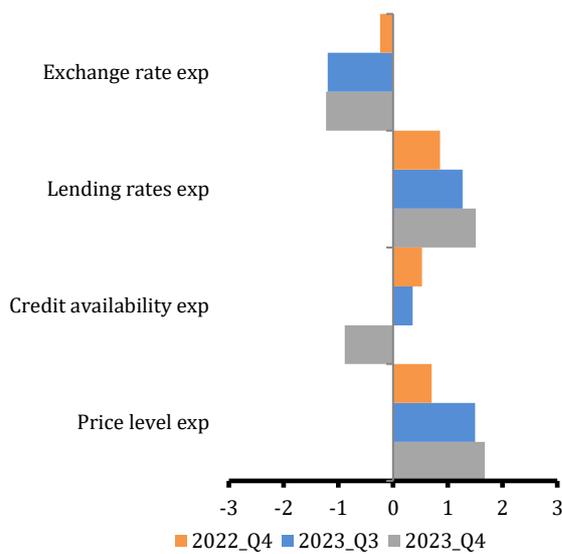
Source: Bank of Zambia

Chart 20: Inflationary Expectations Next Quarter



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

Chart 21: Inflation, Exchange Rates and Lending Rates Expectations



Notes:

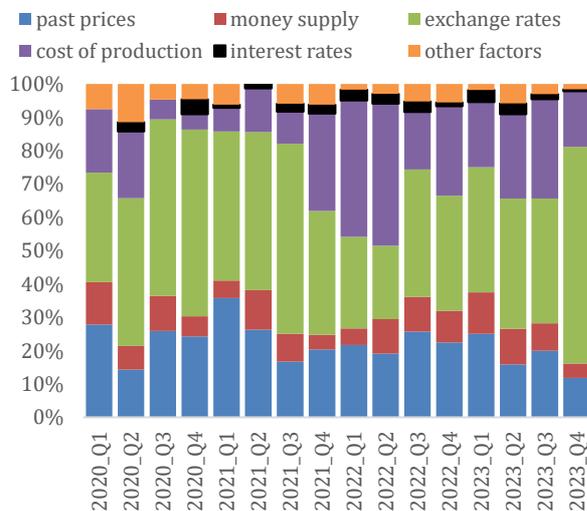
Exchange rate = appreciation, strong (+)/depreciate, weak (-)
 Lending rates = increase, high (+)/decrease, low (-)
 Credit availability = tight (-)/ loose (+)
 Inflation expectations = increase, high (+)/decrease, low (-)

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?

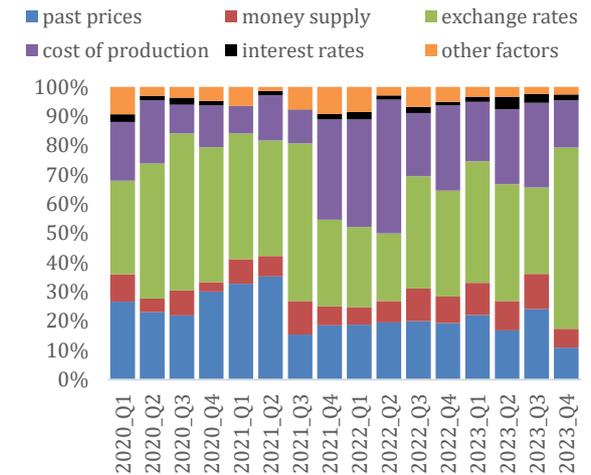
Depreciation of the exchange rate and high cost of inputs are expected to continue driving inflationary pressures in the first quarter of 2024 and 12 months ahead (Charts 22A and 22B).

Chart 22A: Key Drivers of Inflationary Expectations Next Quarter



Source: Bank of Zambia

Chart 22B: Key Drivers of Inflationary Expectations next 12 Months



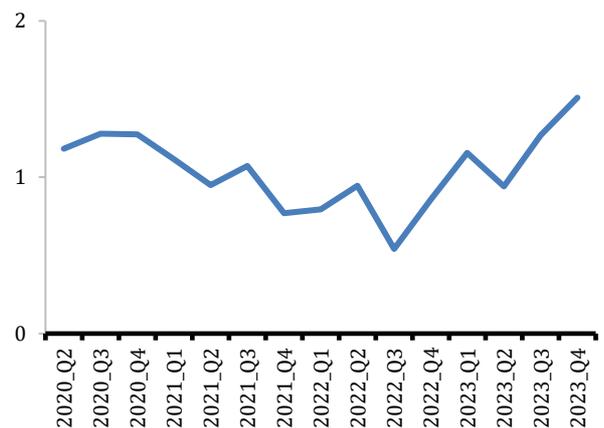
Source: Bank of Zambia

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

(Net balance, 0.89; Q3 2023, 0.80)

Lending rates are expected to continue rising as the Monetary Policy Committee is likely to tighten the policy stance in view of intensifying inflationary pressures (Charts 21 and 23).

Chart 23: Interest rate expectations next quarter



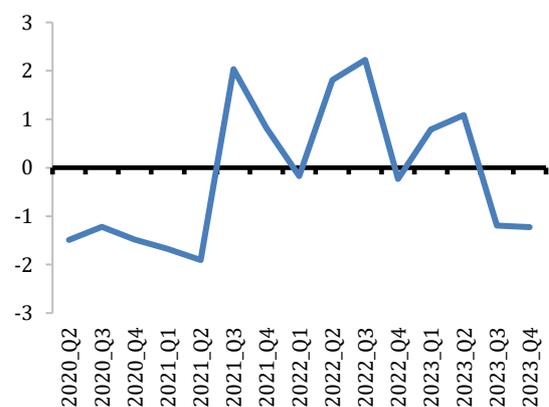
Note: The line at zero (0.0) represents the long-term average
 Source: Bank of Zambia

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, - 0.63; Q3 2023, -0.62)

The Kwacha is expected to weaken further against the US dollar in the first quarter of 2024 due to persistent foreign exchange supply constraints (Chart 24). Protracted debt negotiations with private creditors and sluggish mining sector output largely explain the growing pessimism in the foreign exchange market. Consequently, most firms expect the Kwacha to average K26.53 per US dollar (Table 4).

Chart 24: Exchange rate expectations next quarter



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

Table 4: Expected Exchange Rate at the end of the Next Quarter (Q4 2023)

Range	Frequency	Percent
1-5	1	1
6-10	1	1
11-15	4	2
16-20	8	5
21-25	34	20
26-30	112	67
31-35	8	5
Total	168	100

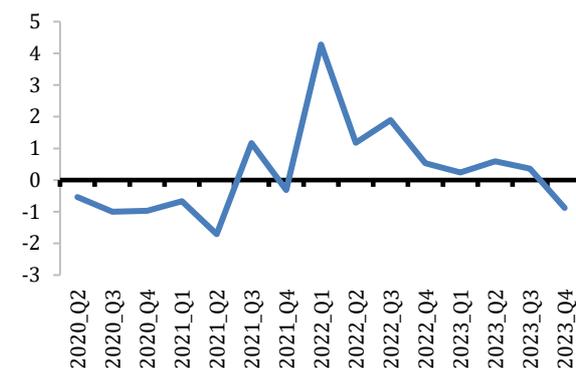
Source: Bank of Zambia

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

(Net balance, -0.68; Q3 2023, -0.54)

Credit conditions are expected to remain tight on account of increased cost of credit and elevated credit risk (Charts 21 and 25).

Chart 25: Credit availability expectations next quarter²



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

5.0 Conclusion

The increase in economic activity in the fourth quarter of 2023 was attributed to festive seasonal demand while businesses contended with the sustained depreciation of the exchange rate, rising inflation and input costs, as well as elevated borrowing costs. These factors are expected to weigh on economic activity in the first quarter of 2024 and 12 months ahead. In addition, protracted external debt negotiations with commercial creditors and potential adverse El Niño weather effects pose significant risks to economic prospects. On the upside, the projected rise in copper prices and resolution of challenges at Mopani and Konkola Copper Mines may support growth.

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

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).