

Quarterly Survey of Business Opinions and Expectations



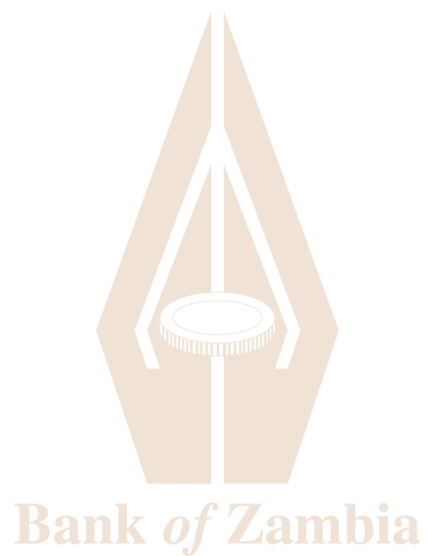
February 2025

Disclaimer:

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



Bank of Zambia



REGISTERED OFFICES

Head Office

Bank of Zambia, Bank Square, Cairo Road P. O. Box
30080, Lusaka, 10101, Zambia Tel: (+260) 211 399300
E-mail: info@boz.zm

Website: www.boz.zm

Regional Office

Bank of Zambia, Buteko Avenue, P. O. Box 71511, Ndola,
Zambia Tel: (+260) 212 399600
E-mail: info@boz.zm

Website: www.boz.zm

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Summary

The *February 2025 Survey of Business Opinion and Expectations* points to a further weakening in economic activity in the fourth quarter of 2024. This was largely driven by weakening of the Kwacha, persistent electricity shortages and constrained consumer demand amid escalating inflationary pressures. Economic prospects for the first quarter of 2025 are projected to remain sluggish due to the ongoing electricity rationing, a depreciated exchange rate and rising fuel prices which may further increase the cost of production. Respondents are, however, optimistic about economic activity in the next 12 months premised on expected recovery in agriculture production, stabilization of electricity supply and increase in copper production.

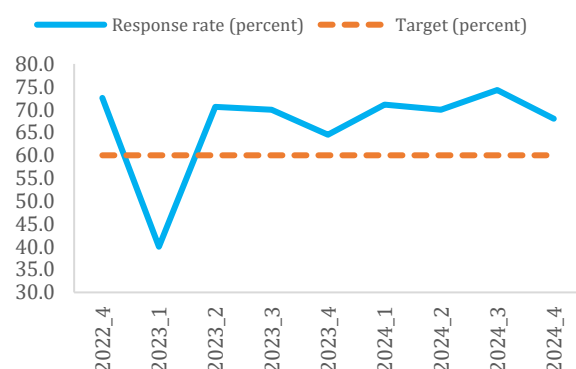
1.0 Introduction

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

This Report presents views of firms regarding macroeconomic developments in the fourth quarter of 2024 and expectations for the first quarter of 2025 and 12 months ahead.

The survey covered 350 companies out of which 238 responses were received. This represents a response rate of 68 percent compared to 74 percent achieved in the third 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	19
Copperbelt	24	10
Eastern	21	9
Luapula	19	8
Lusaka	42	18
Muchinga	23	10
Northern	24	10
Northwestern	16	7
Southern	13	5
Western	11	5
Total	238	100

Source: Bank of Zambia

The tourism sector had the highest number of responses (32 percent) followed by services (18 percent) and wholesale and retail (17 percent) sectors (Table 2). The construction sector remained the lowest, at 4 percent.

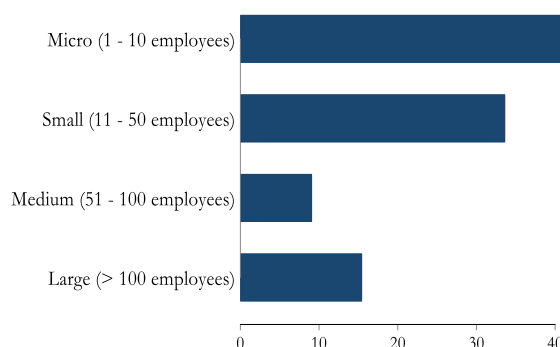
Table 2: Distribution of Responses by Sector

	Frequency	Percent
Manufacturing	37	16
Wholesale and Retail (Merchant)	42	18
Services	41	17
Tourism	77	32
Construction	9	4
Agriculture	32	13
Total	238	100

Source: Bank of Zambia

Based on the number of employees, most of the respondent firms were micro in size (42 percent) while large firms accounted for 16 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 fourth quarter of 2024 as well as expectations for the first quarter of 2025 and 12 months ahead. Section 3 presents views on input costs, wages, and prices. Section 4 presents macroeconomic prospects up to one year ahead. Section 5 concludes. A description of the survey methodology is provided in the appendix.

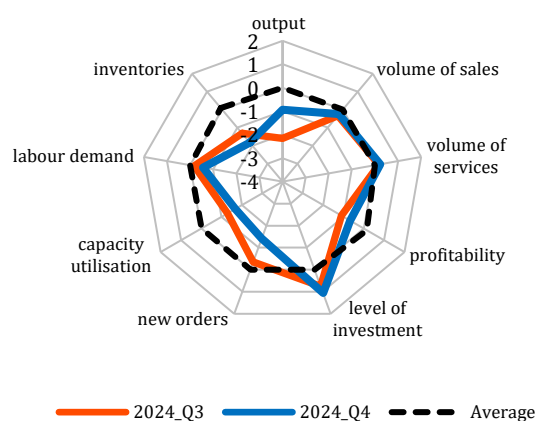
2.0 Current Economic Performance and Expectations

...exchange rate depreciation, electricity shortages and rising inflation stifle economic activity

Economic activity in the fourth quarter remained subdued for the third consecutive period on account of a weakened exchange rate, continued electricity supply rationing and escalation in inflationary pressures. Consequently, new orders, capacity utilisation, and labour demand declined (Chart 3A and 3B). The level of inventories remained low on account of the lingering

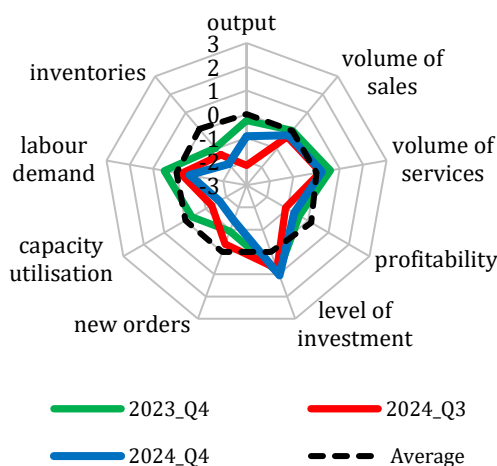
effects of the drought on production, weak consumer demand and shortages in electricity supply required for freezing and storage purposes. However, the level of investment increased as firms undertook expansion and renovation activities while others cited investment in alternative energy equipment.

Chart 3A: Business Opinion Response Patterns (Q/Q)



Source: Bank of Zambia

Chart 3B: Business Opinion Response Patterns (Y/Y)



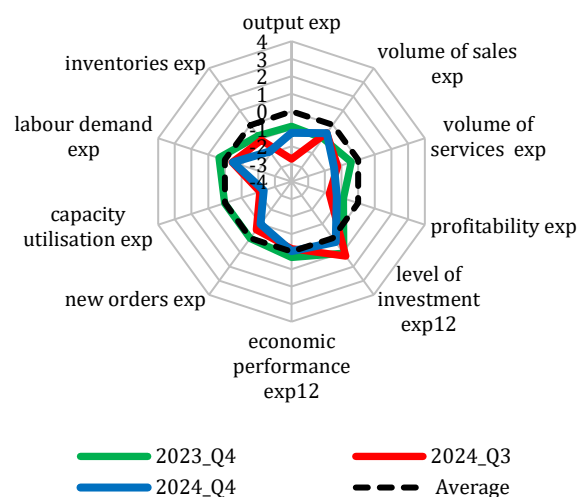
Source: Bank of Zambia

Economic conditions are expected to remain sluggish in the first quarter of 2025 due to the ongoing electricity shortages, a weaker exchange rate and rising fuel prices that may further increase the cost of production.

However, over the next 6 to 12 months, firms are optimistic about economic activity, with expectations of increased mineral production on account of the reopening of Kansenseli

Gold Mine and commencement of operations at Kalengwa Copper Mine and Mimbula Minerals Limited. Further, output is generally expected to increase as electricity supply improves and raw materials become more available with the anticipated recovery of agricultural production (Chart 4).

Chart 4: Business Expectations Response Patterns



Source: Bank of Zambia

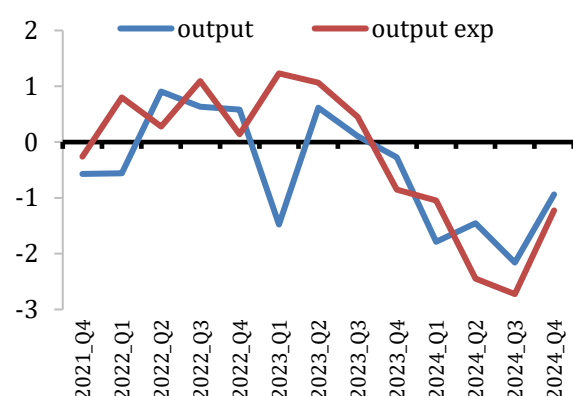
2.1 What has been your firm's experience with respect to output?

(Net balance, -0.25; Q3 2024, -0.47)

Output contracted further in the fourth quarter, albeit at a slower pace, reflecting subdued consumer demand, shortage of grain and oilseed (e.g. maize, sunflower and soy bean), as well as electricity load management which negatively affected production (Chart 5).

In the next quarter, respondents expect output to remain weak, albeit with a slight improvement. This is on account of low supply of raw materials and sustained power rationing.

Chart 5: Output



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

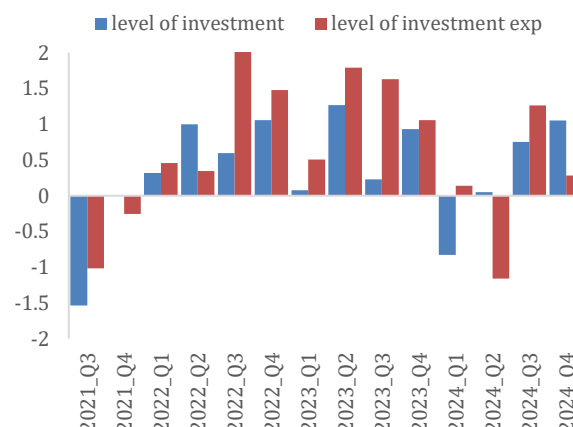
2.2 How was your firm's level of investment?

(Net balance, 0.15; Q3 2024, 0.11)

The total level of investment, comprising working capital, equipment and machinery, as well as buildings continued to rise in the fourth quarter. Firms across sectors continued to invest in alternative sources of energy. The rise in the level of investment was also attributed to renovations, room expansion and security installation projects in the accommodation sub-sector. Furthermore, firms increased working capital for the procurement of imported inputs and tradeable goods as costs increased due to the exchange rate depreciation. Some agricultural input dealers increased working capital in readiness for higher demand for inputs and equipment during the farming season. Some retail firms also made additional allocations of working capital and invested in buildings, machinery and equipment for new outlets (Chart 6).

In the next quarter, the level of investment is expected to continue rising on account of more expansion and renovation projects in the tourism sector and as some firms further increase working capital allocations and acquire more machinery and equipment.

Chart 6: Level of Investment



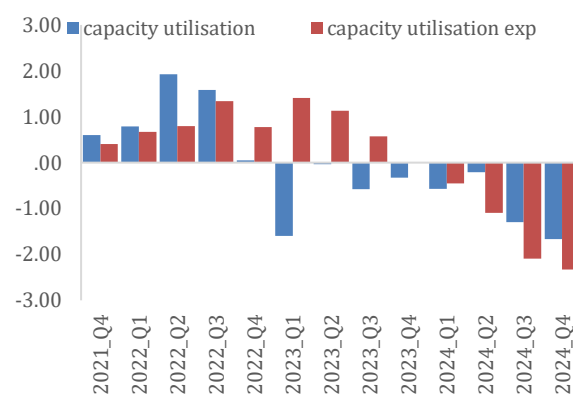
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, -0.51; Q3 2024, -0.44)

Capacity utilisation declined further in the fourth quarter of 2024 as load shedding continued to weigh on production (Chart 7). Capacity utilisation was also negatively impacted by subdued demand, inadequate grain raw materials for firms in the milling sub-sector and reduced contractual projects for some firms in the construction sector.

Chart 7: Capacity Utilisation



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

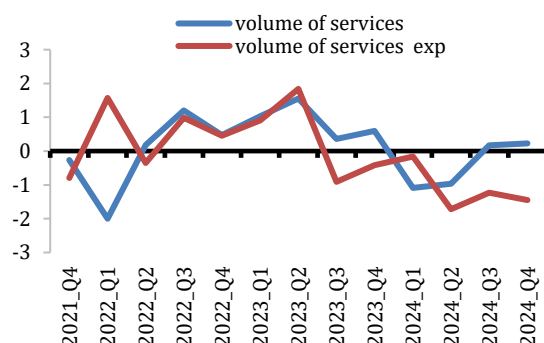
In the first quarter of 2025, weak demand and electricity rationing are expected to further weigh on capacity utilisation.

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

(Net balance, -0.07; Q3 2024, -0.09)

The volume of service improved further in the fourth quarter as tourism activities increased owing to the festive season (Chart 8). Some respondents in transport and logistics also experienced increased passenger volumes which they partially attributed to the coming onboard of new airline carriers, such as Uganda Airlines and LAM Mozambique Airlines. Those in the financial services sector experienced increased demand for products and services as firms and consumers sought capital for stabilization.

Chart 8: Volume of Service



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

However, the volume of service is expected to decline in the next quarter as tourism activities reduce during the rainy season. Nonetheless, those in the financial sector are optimistic about sustained demand for their products while those in the aviation industry expect the newly announced waiver of visa requirements for 53 additional countries to boost service provision.

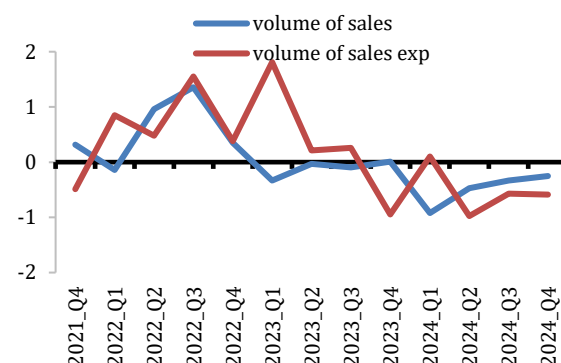
2.5 What has been your firm's experience with respect to the volume of sales?

(Net balance, -0.40; Q3 2024, -0.42)

The volume of sales declined, although at a slower pace, mainly attributed to subdued

consumer demand due to high inflation. Reduced sales were also attributed to the depreciation of the exchange rate that increased firm expenses on imported inputs. These were partially passed on to consumer prices, eroding consumer purchasing power (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 decline further in the first quarter of 2025. The reduction is explained by persistently high consumer prices dampening demand as well as the seasonal agricultural cycle in farming-dependent districts. During this period, farmers will be preoccupied with essential agricultural activities, including weeding, fertilizer and chemical application, as well as planting of secondary crops such as sweet potatoes, that will temporarily reduce their market participation. This will likely reduce the volume of sales for those in the wholesale and retail trade sector.

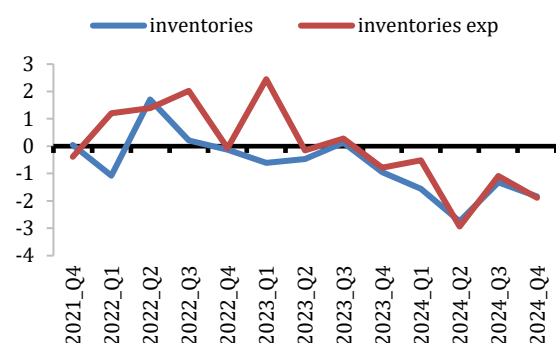
2.6 What has been your firm's experience with respect to inventories?

(Net balance, -0.34; Q2 2024, -0.27)

Inventories of final goods declined in the fourth quarter across all sectors. The decline was due to subdued consumer demand due to high inflation, higher input costs and sub-optimal firm production on account of electricity load management. Lower output in the agriculture sector occasioned by the drought also resulted in inadequate availability of raw materials and constrained production of final goods in the milling sub-

sector (Chart 10). Further, respondents in the wholesale and retail sector reported lower inventories to reduce potential spoilage of goods arising from inadequate freezing and storage on account of electricity outages.

Chart 10: Level of inventories



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

Similarly, inventories of inputs declined in the fourth quarter as production fell due to electricity shortages. The effects of the drought, which reduced availability of raw materials, also contributed to the decline in inventories.

In the next quarter, inventories of both raw materials and finished goods are expected to reduce further as demand remains constrained and power supply shortages persist. However, this may be moderated by the expected increase in agricultural production.

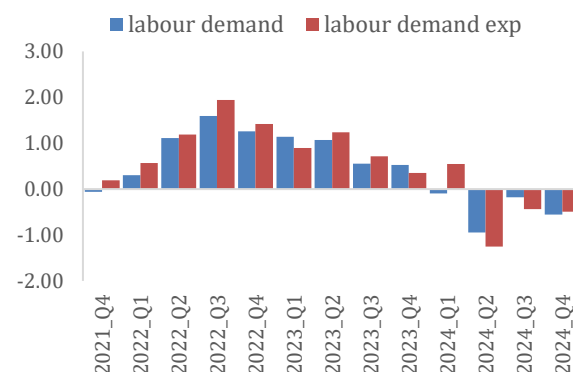
2.8 How do you rate your firm's labour demand?

(Net balance, -0.16; Q3 2024, -0.10)

Labour demand contracted further as low consumer spending and sub-optimal production induced by the shortage of raw materials and continued electricity shortages negatively affected production resulting in reduced hirings. In addition, reduced construction activities in the quarter weighed on labour demand. Furthermore, adoption and implementation of digital technology, particularly in the insurance sub-sector, resulted in the fall in demand for workers as

more clients were able to access insurance services digitally (Chart 11).

Chart 11: Labour Demand



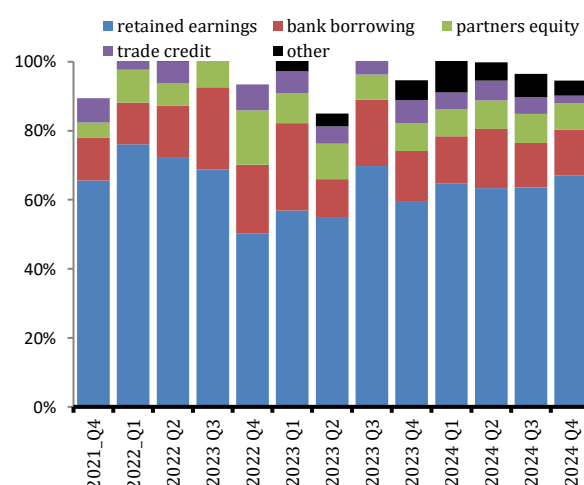
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

In the next quarter, demand for labour is expected to remain subdued across all the sectors on account of weak demand.

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

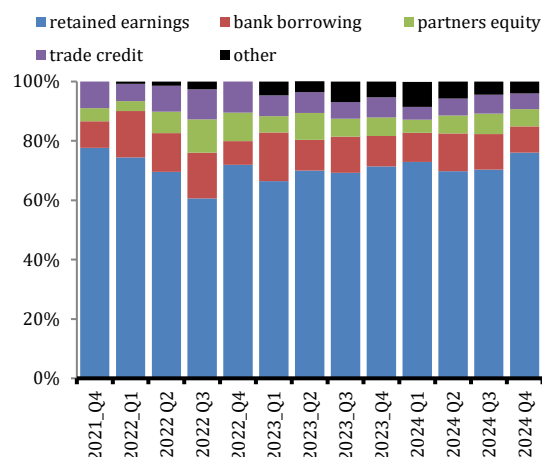
Retained earnings continued to be the main source of financing for working capital and investment followed by bank borrowing and partner equity (Charts 12A and 12B). However, the share of bank borrowing declined further amid high interest rates.

Chart 12A: Sources of Investment Finance



Source: Bank of Zambia

Chart 12B: Sources of Working Capital



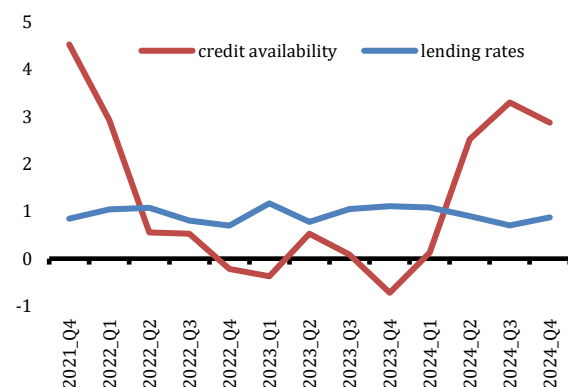
Source: Bank of Zambia

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

(Credit Availability, -0.08; Q3 2024, -0.01)
(Lending Rates, 0.81; Q3 2024, 0.75)

Respondents were of the view that the availability of credit declined during the quarter (Chart 13). This was attributed to the high statutory reserve ratio and perceived increase in default risk on account of weak economic conditions.

Chart 13: Credit Availability and Lending Rates



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

Respondents also indicated that access to credit was constrained by high lending rates following the tightening of monetary policy, stringent collateral requirements and lengthy approval processes.

3.0 Evolution of Costs, Wages and Prices

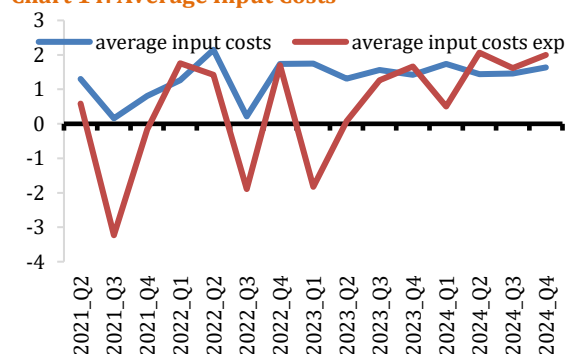
3.1 What has been your firm's experience with respect to average input costs?

(Net balance, 0.65; Q3 2024, 0.62)

Average input costs continued to increase on account of rising inflation, depreciation of the Kwacha, high electricity tariffs, inadequate supply of raw materials (grains) and high fuel prices (Chart 14).

In the next quarter, input costs are expected to rise further mainly due to the persistent depreciation of the Kwacha and the escalation in inflation.

Chart 14: Average Input Costs



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

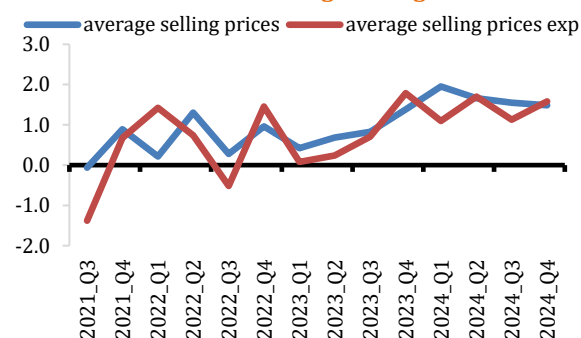
3.2 What has been your firm's experience with respect to average selling prices?

(Net balance, 0.36; Q3 2024, 0.38)

Average selling prices rose further, albeit at a slower pace, as input costs continued to increase (Chart 15). Rising inflation, Kwacha depreciation, use of alternative energy sources and increased transportation costs contributed to the increase in product prices.

A further rise in inflation and exchange rate depreciation are expected to maintain upward pressure on selling prices in the first quarter of 2025.

Chart 15: Evolution of Average Selling Prices



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

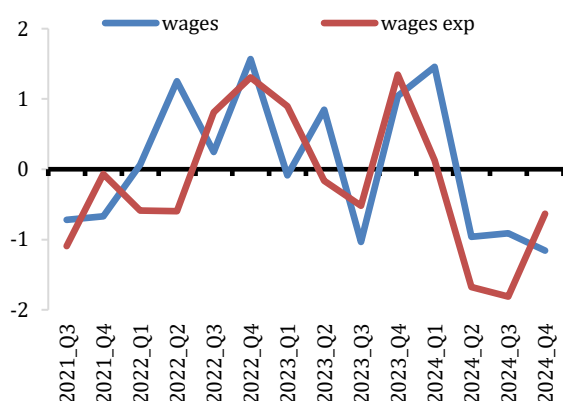
Source: Bank of Zambia

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

(Net balance 0.04; Q3 2024, 0.06)

Respondents indicated a marginal increase in the wage bill during the fourth quarter. This was mainly explained by the implementation of annual salary adjustments and discretionary upward wage increments in view of the increased cost of living. However, the increase was moderated by redundancies arising from reduced production hours due to electricity load management and inadequate supply of raw materials (Chart 16).

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 increase further in the first quarter of 2025 largely on account of salary reviews by some firms.

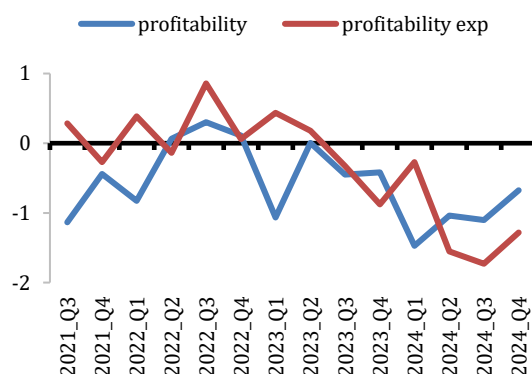
3.4 What has been your firm's experience with respect to profitability?

(Net balance, -0.41; Q3 2024, -0.51)

Respondents reported a reduction in profit margins in the fourth quarter on account of low production and acceleration in production costs driven by electricity shortages and higher input costs, respectively. Subdued consumer demand also weighed on sales and profitability (Chart 17). To maintain profit margins amid the prevailing high operating costs, most firms increased selling prices, but stiff competition prevented a complete pass-through.

Firms expect profitability to remain low in the first quarter of 2025 as operating costs remain high.

Chart 17: Profitability



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

average Source: Bank of Zambia

Macroeconomic Prospects

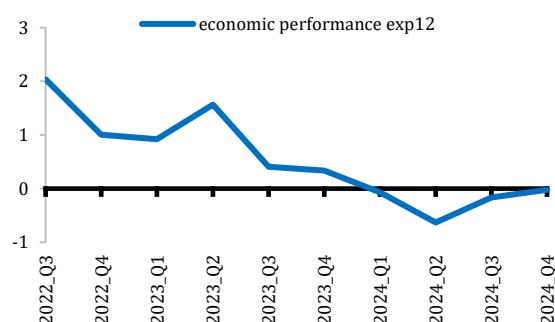
4.1 What is your expectation of the performance of the economy in the next 12 months?

(Net balance, 0.18; Q3 2024, 0.13)

Respondents expressed optimism about economic activity over the next 12 months (Chart 18). This is mainly premised on the expected favourable rainfall pattern which will support increased electricity supply and recovery of agricultural production. Further, respondents expect a surge in mining output due to recent investments in the sector. Recruitment of Government workers in the

education and health sectors as well as anticipated investment inflows following the completion of external debt restructuring are expected to positively impact growth.

Chart 18: Economic Performance in the Next 12 Months



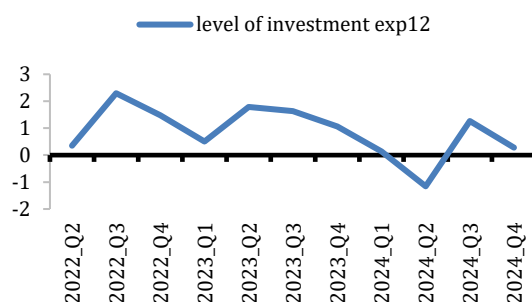
Note: The line at zero (0.0) represents the long-term average
Source: Bank of Zambia

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

(Net balance, 0.21; Q3 2024, 0.33)

Most respondents indicated plans to investment in their businesses in the next 12 months, with most pledges from the tourism sector. Investments in the tourism sector will mostly be in the form of renovations, room expansion and security installation projects to maintain and expand firm market share. Investments will also be augmented by firms in the micro-finance sub-sector who plan to inject substantial amounts of funds into working capital to expand lending activities. Respondents in the services sector pointed to increased investments in income generating assets such as Government securities while others plan to invest in new digital technologies and marketing campaigns. Firms in the construction sector expect the growth of the mining sector to culminate in further acquisition of machinery. Further, some respondents in the milling sub-sector plan to inject substantive amounts of capital in expansionary activities in the next 12 months to increase production capacity (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 pessimistic that the exchange rate may further weaken and that the energy crisis could persist for a longer period, keeping operating costs high and thus constrain production and capacity expansion in the next 12 months.

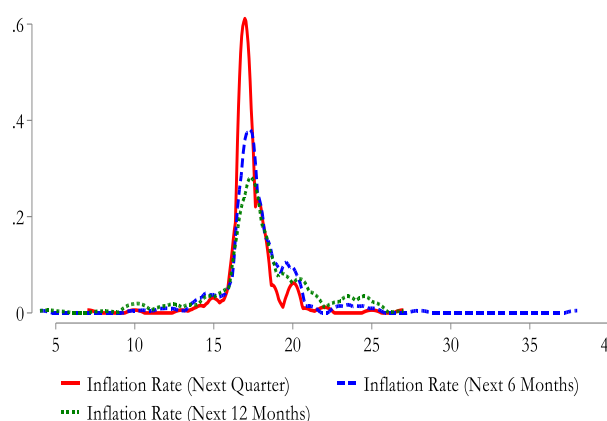
4.3 What do you expect the price level to be over the next quarter?

(Net balance, 0.84; Q3 2024, 0.86)

Inflationary pressures are expected to remain high in the first quarter of 2025, driven by rising production costs from the use of alternative electricity sources, past inflation and exchange rate depreciation (Charts 20, 21, and 22). In addition, elevated interest rates as well as fluctuating and high fuel prices will contribute to the anticipated increase in inflation, projected to average 17.3 percent.

Over the next six months, prices are expected to keep rising, with inflation projected to edge up to 17.8 percent on average due to the sustained high operating costs and further exchange rate depreciation. Firms expect inflation to remain high in the next 12 months as these factors persist.

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



Source: Bank of Zambia

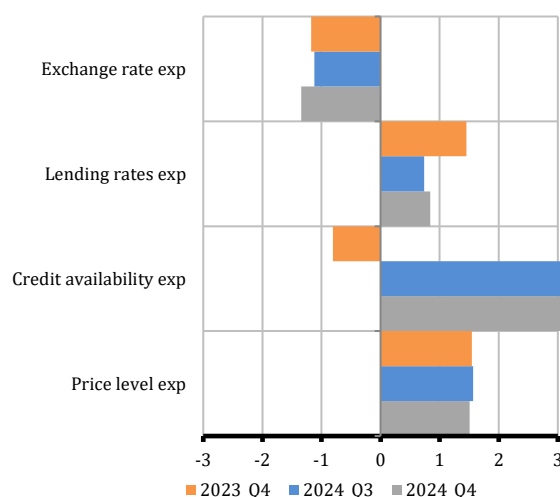
Chart 21: Inflationary Expectations Next Quarter



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

Source: Bank of Zambia

Chart 22: Inflation, Exchange Rate and Lending Rate Expectations



Notes:

Exchange rate = appreciation, strong (+)/depreciate, weak (-)

Lending rates = increase, high (+)/decrease, low (-)

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

Inflation expectations = increase, high (+)/decrease, low (-)

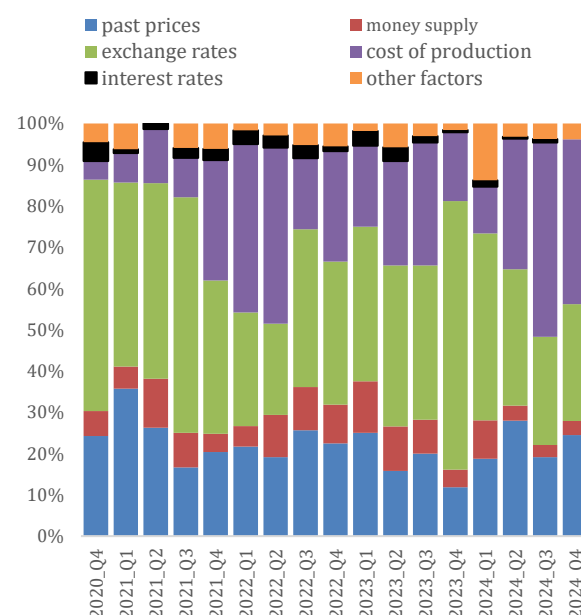
Note: The line at zero (0.0) represents the long-term average

Source: Bank of Zambia

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

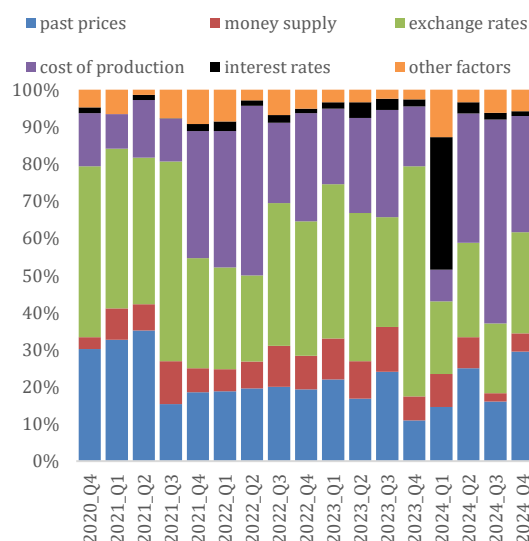
Firms expect high production costs due to power outages, rising input prices, exchange rate depreciation and the effects of previous price hikes to continue weighing negatively on inflation expectations in the first quarter of 2025 and the next 12 months (Charts 23A and 23B).

Chart 23A: Key Drivers of Inflationary Expectations Next Quarter



Source: Bank of Zambia

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



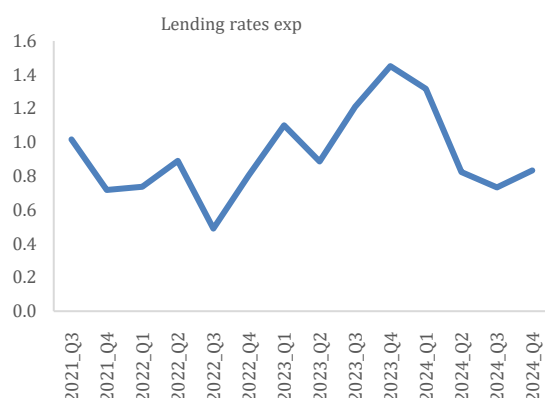
Source: Bank of Zambia

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

(Net balance, 0.66; Q3 2024, 0.62)

Respondents expect lending rates to rise further in the first quarter of 2025 (Chart 24). This is premised on anticipation of an upward Policy Rate adjustment. In addition, firms expect rising inflation to put pressure on lending rates.

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?

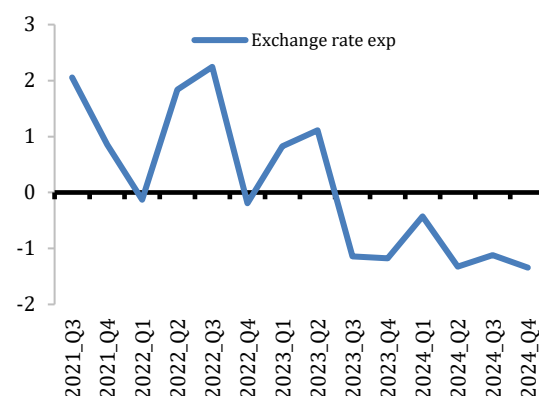
(Net balance, - 0.68; Q2 2024, -0.61)

The Kwacha is projected to continue depreciating against the US dollar in the first quarter of 2025 due to constrained foreign exchange supply (Chart 25). Demand for foreign exchange is further expected to remain high as firms continue to use alternative sources of electricity, compounded by increased Government external debt servicing requirements. Geopolitical factors, such as the change of Government in the United States of America, may also result in a stronger US dollar.

Nonetheless, some respondents expressed optimistic views on the exchange rate on account of increased mining output due to recent investments which will support foreign exchange inflows. In addition, the expected

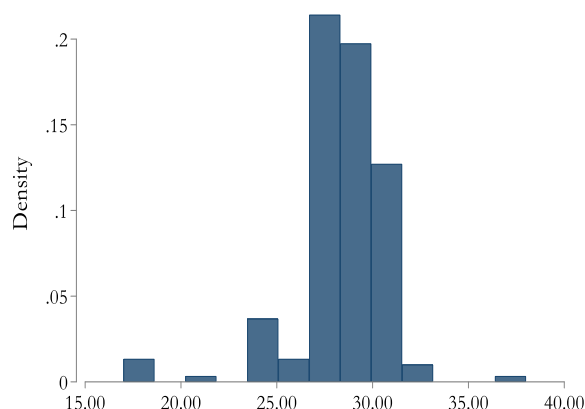
improvement in power supply and increased agricultural production are expected to reduce foreign exchange demand for alternative sources of power and food imports, respectively. As such, firms expect the Kwacha to average K28.23 per US dollar in the first quarter of 2025 before rising moderately to K28.33 per US dollar in the second 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 26: Histogram - Expected Exchange Rate at the end of the Next Quarter (Q1 2025)



Source: Bank of Zambia

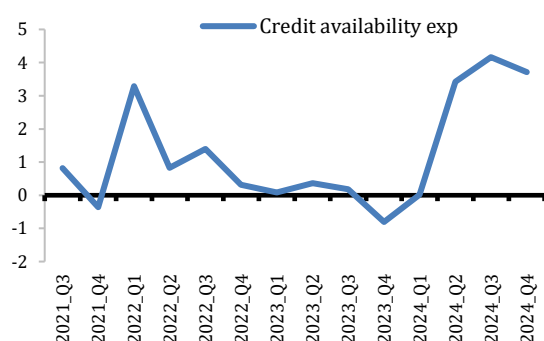
Over the next 12 months, the Kwacha is expected to remain weak, depreciating further to K28.39 per US dollar as the aforementioned factors persist. However, the Kwacha may perform better than expected as mining production increases, electricity supply improves, and agriculture and manufacturing sector output rebound and boost exports.

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

(Net balance, -0.03; Q3 2024, 0.03)

Credit conditions are expected to remain weak in the next quarter due to stringent conditions attached to loan acquisition, high interest rates, and the elevated statutory reserve ratio. The weakening of the exchange rate is also expected to further discourage borrowing in foreign currency. However, some respondents expect credit conditions to improve due to a perceived increase in competition among lending institutions (Charts 22 and 27).

Chart 27: Credit availability expectations next quarter ¹



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

5.0 Conclusion

Economic activity remained fragile in the fourth quarter, largely due to the exchange rate depreciation, continued electricity shortages and rising inflationary pressures. In the first quarter, inflation is expected to keep rising while the exchange rate is projected to weaken further. However, the level of investment was positive as firms sought to invest in their existing establishments, opened new outlets and procured alternative sources of power. Sentiments regarding performance over the next six to 12 months are positive, underpinned by the expected increase in mining output, a recovery of the agricultural sector as well as easing electricity rationing. Foreign investment inflows

following the completion of external debt restructuring are also 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, Solwezi and Zambezi), Northern (Kasama, Mbala and Mpulungu), Muchinga (Mpika, Chinsali, Isoka and Nakonde), Luapula (Samfya and Mansa), Lusaka (Lusaka, Chongwe and Kafue) and Western Provinces (Mongu, Senanga, 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

¹ Credit availability = tight (-)/ loose (+)

(negative) net percentage indicates that more respondents reported/expected an increase(decrease)/ improvement (deteriorating) /tightening (loosening).