

# Business Expectations Survey September 2018

## 1. Introduction

### Description of the Survey

- 1.1 The Bank's biannual Business Expectations Survey (BES) collects information on the local business community's perceptions about the prevailing state of the economy and economic prospects. In the survey, businesses respond to a range of questions relating to, among others, the business climate and the outlook for economic growth, inflation and business performance over three survey horizons. These are the half year in which the survey is conducted/current period (period t), the next half year (period t+1) and the next twelve months (period t+2).
- 1.2 The survey responses mainly focus on the anticipated direction of change: i.e., whether conditions will improve, worsen or stay the same. The results are then consolidated on the basis of an overall 'net balance', obtained by summing the positive and negative responses for each question/element, weighted by each sector's contribution to nominal Gross Domestic Product (GDP). Thus, by design, the survey responses are predominantly qualitative, yet they provide valuable indicators to facilitate analysis and inform policy decisions.<sup>1</sup> However, capacity utilisation, GDP growth and inflation are measured in gross terms.
- 1.3 This report presents results of the survey carried out between September and October 2018, for the second half of 2018 (H2:2018 - the current period); the first half of 2019 (H1:2019); and the twelve-month period to December 2019 (H1:2019-H2:2019). The survey samples 100 businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport and communications, as well as finance and business services. Compared to the previous survey, the response rate increased from 89 percent to 91 percent.

### Highlights of the Survey Results

- 1.4 The results suggest that economic activity has improved since the last survey, mainly attributable to the recovery in the mining sector, which is driven by global demand for rough diamonds. Overall, businesses reported higher sales, improved capacity utilisation and increased profits compared to the March 2018 survey. Investment also rose in the current survey despite the dampening effect arising from the tight access to credit, as perceived by some of the firms. Looking ahead, the pick-up in demand for consumer products and the sustained global demand for diamonds are expected to continue to support economic activity. Meanwhile, cost pressures are expected to increase slightly in the first half of 2019 (Chart 4A), largely owing to the anticipated increase in wages. However, firms expect inflation to remain stable and within the Bank's medium-term objective range of 3 - 6 percent going forward.

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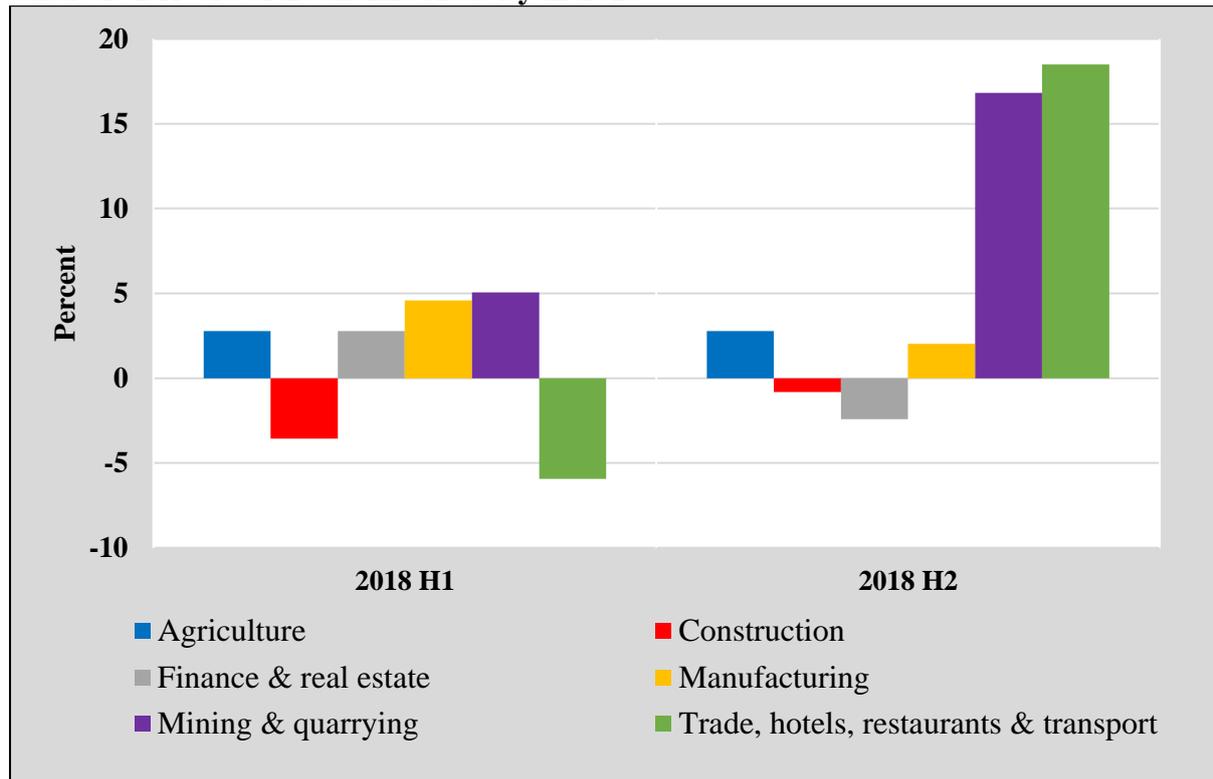
<sup>1</sup> A more detailed description of the survey can be found on the Bank of Botswana website at <http://www.bankofbotswana.bw/index.php/content/2009110615047-business-expectations-survey>.

## 2. Economic Performance and Business Conditions

### Growth in economic activity in 2018 expected to surpass that of 2017

- 2.1 Firms are more upbeat about economic performance in 2018, expecting the economy to grow by 3.1 percent, compared to the 2.4 percent in 2017. The most optimistic sector is the trade, hotels and restaurants, followed by mining and quarrying (Chart 1), and this could be attributable to the positive prospects for global demand for diamonds, which are likely to lead to a rise in sales and prices of diamonds.

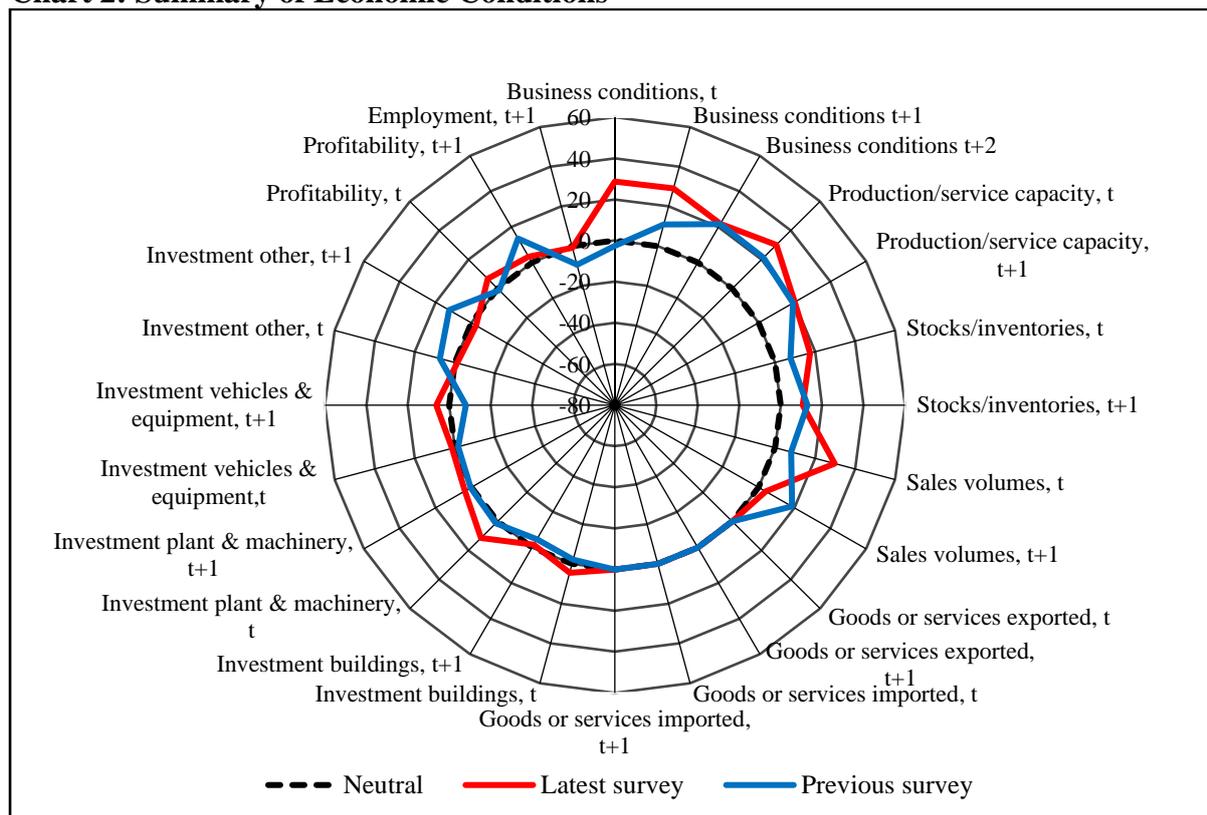
**Chart 1: Drivers of Economic Activity in 2018**



Note: The chart shows net balances of expectations on how each sector views economic activity in the first half and second half of 2018.

- 2.2 Business conditions are perceived to have improved since the last survey (Chart 2), and are expected to become even better in the first half of 2019. Furthermore, firms anticipate improvements in capacity/resource utilisation; production/service capacity; sales; stocks/inventories; profitability; and investment on: plant and machinery, buildings and vehicles during the second half of 2018, compared to the first half of 2018. These, in combination with expectations of continued growth momentum in the mining industry, have generally led firms to expand investment in various assets. Intentions to invest in buildings strengthened, mainly among firms in consumer-related services, such as retail trade, hotels and restaurants, in anticipation of a stronger domestic economic outlook and the expected wage increase.

**Chart 2: Summary of Economic Conditions**



Notes: The chart summarises firms' expectations about business conditions. The red and blue lines represent results of the latest and previous surveys, respectively. The black dashed line is the neutral position, representing static (no change in) expectations. Responses to questions about each of the attributes represented on the chart are plotted along the slanted lines extending from the centre of the chart. Values moving further above the neutral line show an improvement, whereas those moving towards the centre of the chart represent a deterioration. Period t on the red line denotes the current period (H2:2018), t+1 is the first half of 2019 (H1:2019), while t+2 is the twelve-month period to December 2019 (H1:2019-H2:2019). Period t on the blue line denotes, the first half of 2018 (H1:2018), t+1 is the second half of 2018 (H2:2018), while t+2 is the year to June 2019 (H2:2018-H1:2019).

### 3. Expected Lending Rates and Volume of Borrowing

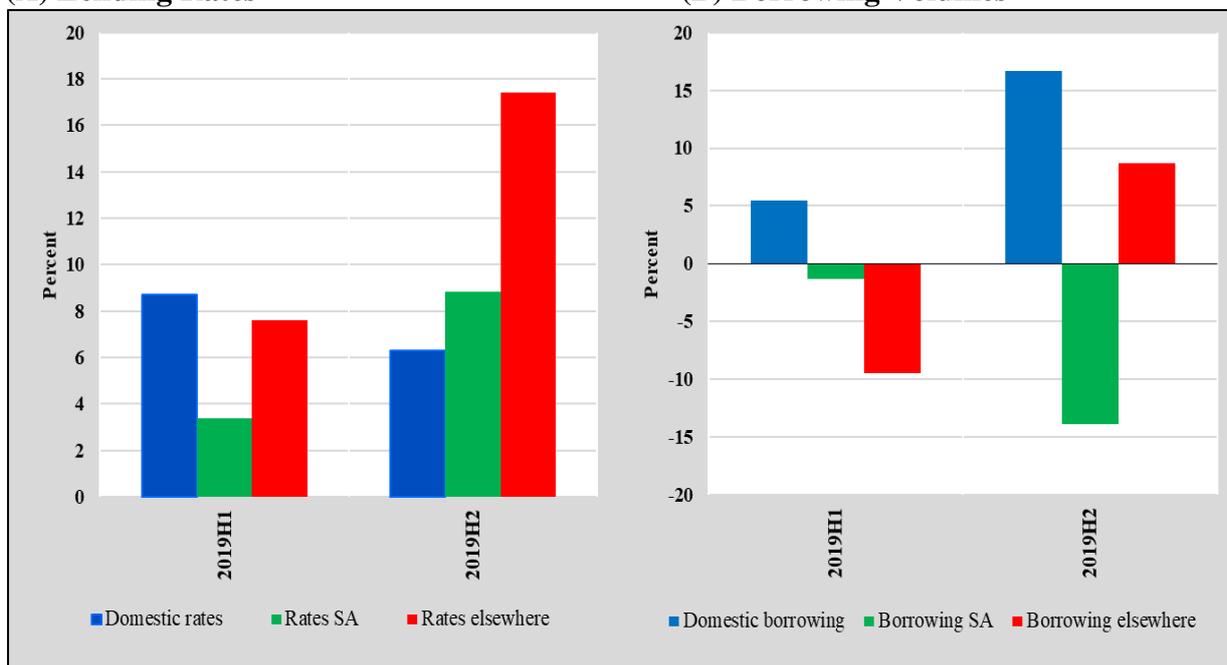
#### Domestic lending rates expected to fall in 2019

- 3.1 Looking ahead, domestic lending rates are expected to decline, thus consistent with the anticipated rise in domestic borrowing in 2019 (Chart 3). On the other hand, lending rates in South Africa are expected to rise, while borrowing from South Africa by Botswana firms is expected to fall in 2019. Meanwhile, lending rates elsewhere are expected to rise in 2019, alongside borrowing volumes.

**Chart 3: Lending Rates and Borrowing Trends**

**(A) Lending Rates**

**(B) Borrowing Volumes**



Note: Figures reported for H1 2019 and H2 2019 are based on the Business Expectations Survey conducted in the second half of 2018.

#### 4. Price Developments

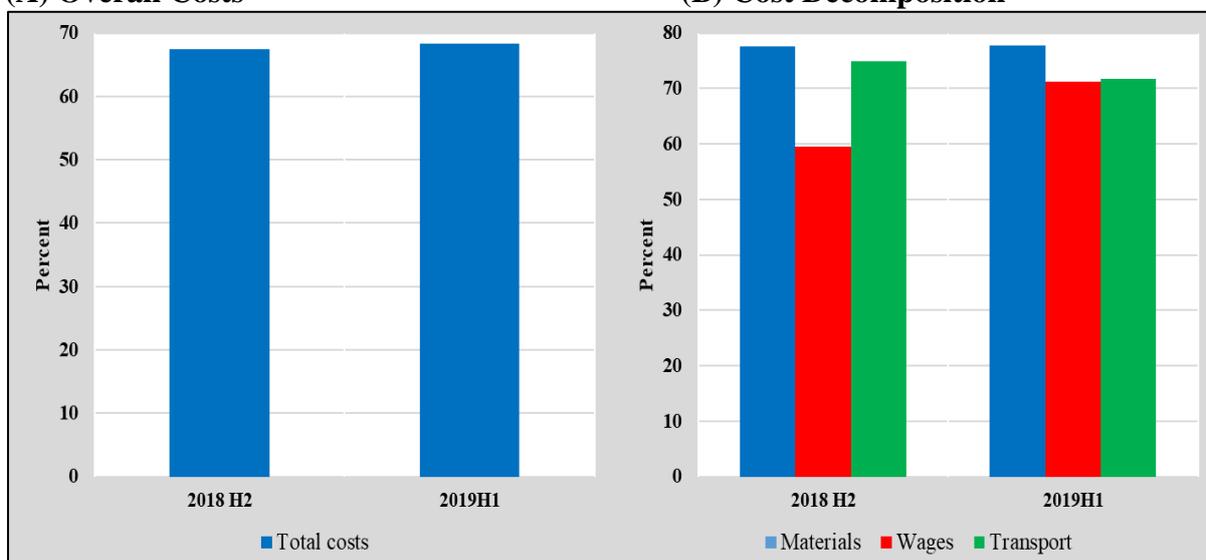
##### Cost pressures expected to increase slightly

4.1 Overall, cost pressures are expected to edge up slightly in the first half of 2019 (Chart 4, Panel A). Firms expect a marginal increase in costs, largely due to the anticipated increase in wages (Chart 4, Panel B) in the first half of 2019.

**Chart 4: Cost Pressure Trends**

**(A) Overall Costs**

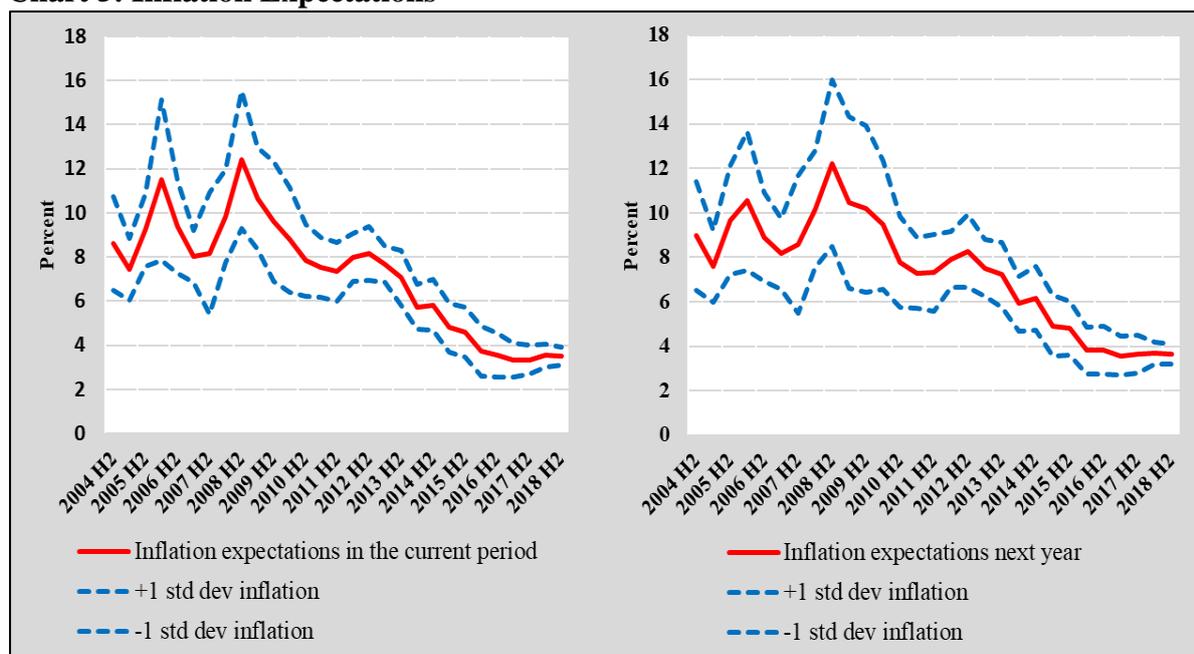
**(B) Cost Decomposition**



### **Inflation is expected to remain within the 3-6 percent objective range**

4.2 Firms' expectations about the domestic inflation have been generally on a downward trend since 2013, and have been within the Bank's inflation objective range of 3-6 percent (Chart 5). In addition, uncertainty about future inflation is diminishing, as shown by the smaller standard deviation (std dev) from the average expectations. Firms' inflation expectations have averaged four percent since 2016, suggesting that inflation expectations are well anchored within the Bank's objective range.

**Chart 5: Inflation Expectations**



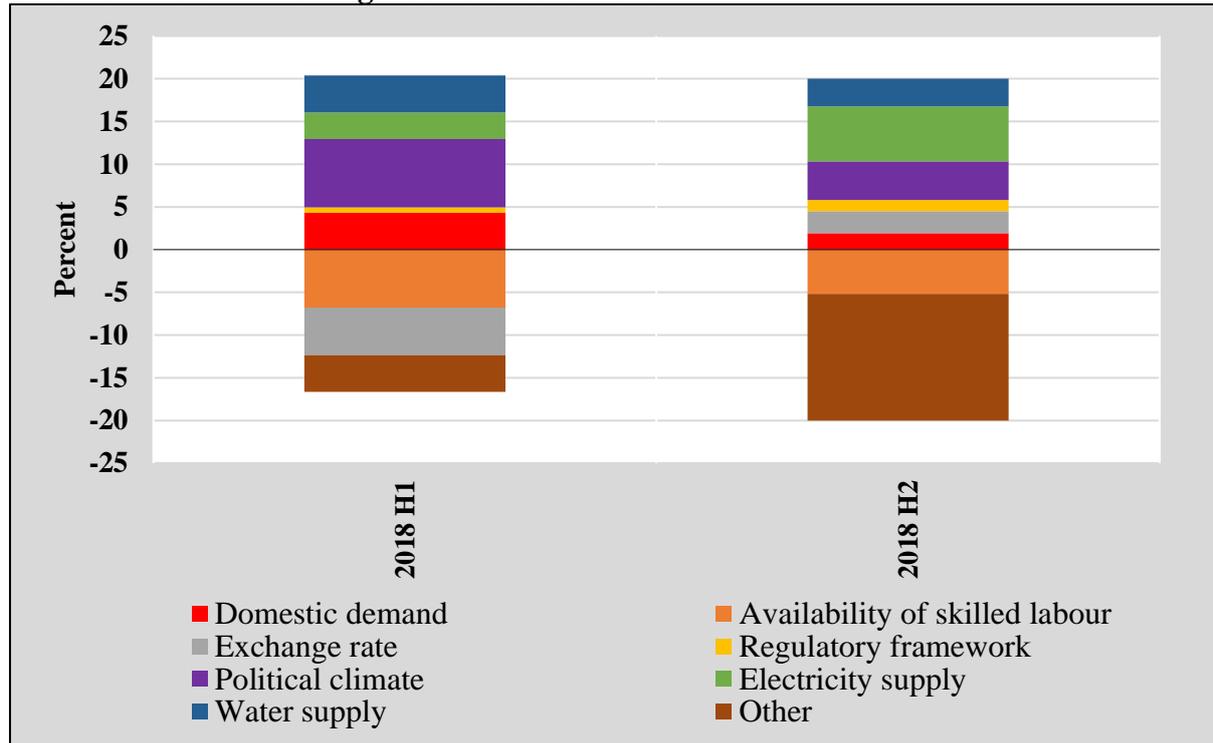
Note: The chart shows the average of inflation expectations across survey rounds, as well as the standard deviation for the inflation expectations of firms.

## **5. Factors Affecting Business Conditions**

### **Slow growth in government spending a major challenge to doing business**

5.1 Slow growth in government spending (the largest constituent under "other") was cited as the greatest challenge facing businesses (Chart 6) in the second half of 2018. Unavailability of skilled labour was considered the second most impeding factor to business operations in the second half of 2018, and relates to reported difficulties experienced in recruiting foreign skilled labour. The challenge of lack of skilled labour is more pronounced for the construction sector, followed by manufacturing. Lack of skilled labour is also one of the areas that are highlighted among the main challenges to doing business in Botswana by the recent Global Competitiveness reports. Meanwhile, the exchange rate and the political climate were viewed positively by businesses. An interesting observation from the Survey is that, water and electricity are now viewed as contributing positively to the business climate, reflecting ongoing improvements in the supply of these utilities.

**Chart 6: Factors Affecting Business Conditions**



## 6. Conclusion

6.1 Overall, business conditions have improved since the last survey and are expected to improve further on account of a pick-up in demand for consumer products and sustained growth in global demand for mining output, as reflected in positive expectations about business conditions in 2019. As firms' inflation expectations seem to be anchored at inflation rates of just below 4 percent, the survey responses support the official projection that inflation will remain within the Bank's objective range of 3 – 6 percent going forward.