



THE QUARTELY BUSINESS EXPECTATIONS SURVEY

MARCH | 2024



1. INTRODUCTION

Description of the Survey

- 1.1 The quarterly Business Expectations Survey (BES), conducted by the Bank of Botswana (the Bank), collects information on perceptions of the domestic business community regarding the prevailing state of the economy and expectations during the survey period. The survey coverage comprises the quarter in which the survey is conducted, also referred to as the current period, the subsequent quarter, and the next 12 months. In completing the survey, businesses respond to questions on, among others: the prevailing business climate; economic growth and inflation outlook; and business performance in the survey horizon.
- 1.2 The March 2024 BES report presents business expectations about the first quarter of 2024 (M0), the second quarter of 2024 (M3); and the 12-month period from April 2024 – March 2025 (M12).
- 1.3 The BES samples 100 businesses from 13 economic sectors, namely: Agriculture, Forestry and Fishing; Mining and Quarrying; Manufacturing; Water and Electricity; Construction; Wholesale and Retail; Transport and Storage; Accommodation and Food Services; Information and Communications Technology; Finance, Insurance and Pension Funding; Real Estate Activities; Professional Scientific and Technical Activities; and Administrative and Support Activities. Meanwhile, due to their interconnectedness, the Construction and Real Estate; Finance, Insurance and Pension Funding, Professional, Scientific and Technical Activities and Administrative and Support Services sectors; Retail, Accommodation, Manufacturing and, Water and Electricity; as well as Transport and, Information and Communications Technology sectors are merged for ease of analysis. The response rate for the current survey is 65 percent compared to 72 percent in the December 2023 survey.
- 1.4 The survey questions are mainly focused on the anticipated direction of change in selected indicators, that is, whether they are expected to improve, remain constant or worsen. The results are then consolidated into a net balance, a measure obtained by summing the positive and negative responses to each question/element by firms belonging to the same sector. Thus, by design, the survey responses are predominantly qualitative, but they provide valuable information to facilitate analysis and inform policy decisions. However, responses to questions relating to the expected level of gross domestic product (GDP) growth and inflation are quantitative and consolidated into simple averages.

Highlights of the Survey Results

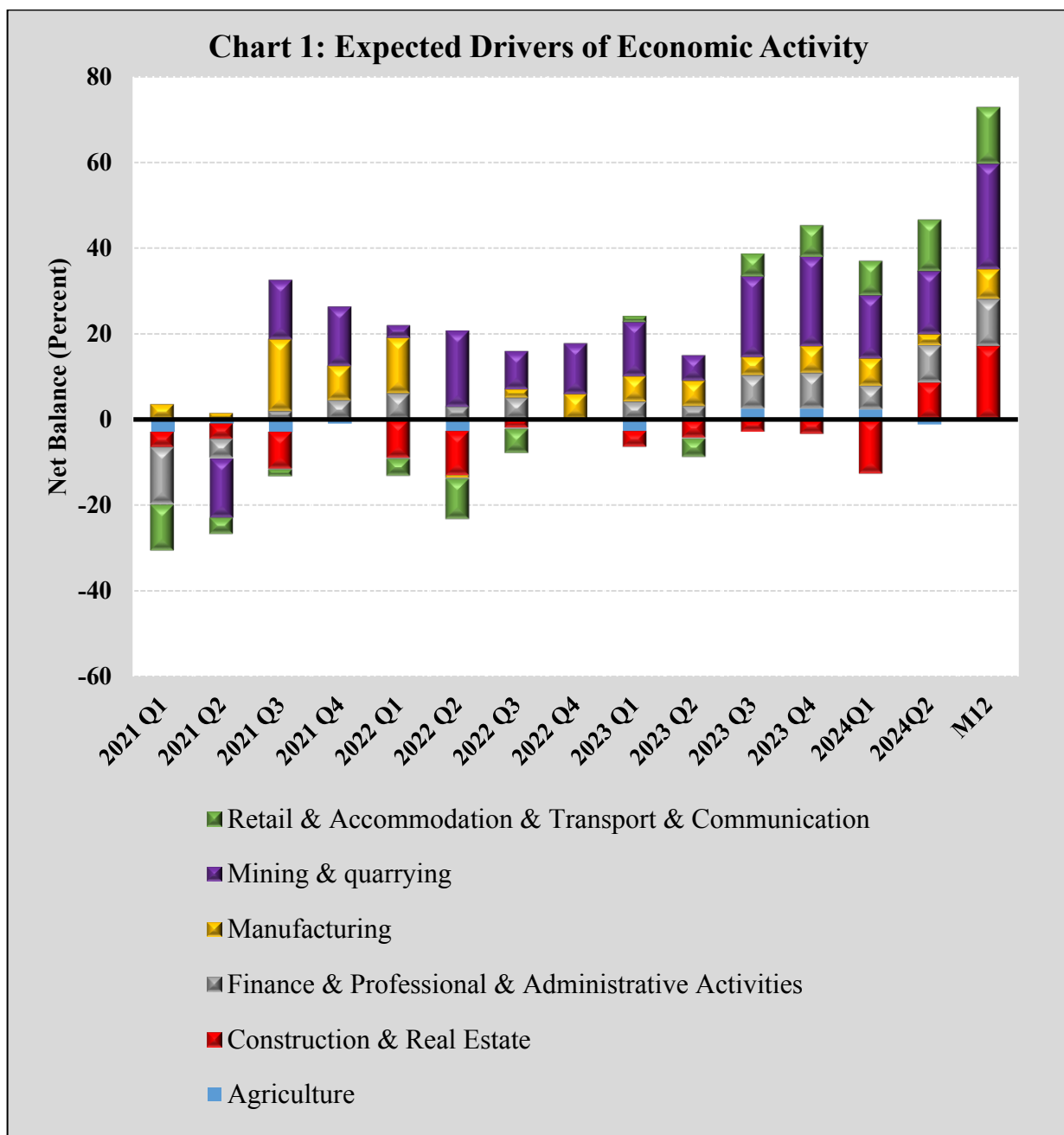
- 1.5 The results of the current BES indicate that firms are less optimistic about business conditions in the first quarter of 2024 compared to the fourth quarter of 2023. Notwithstanding, the businesses expect inflation to remain within the 3 – 6 percent objective range in 2024 and 2025. Firms also anticipate improvement in output of sectors, such as Manufacturing; Agriculture; and Retail, Accommodation, Transport and Communications, and they project this to have a positive impact on aggregate domestic economic performance in the first quarter of 2024. However, firms anticipate lending rates to rise across all markets (Domestic, South Africa and Elsewhere), following maintenance of relatively high interest rates by central banks. Moreover, firms expect cost pressures to be higher in the first quarter of 2024, mainly due to supply constraints arising from geopolitical tensions.

2. BUSINESS CONDITIONS AND ECONOMIC PERFORMANCE

Anticipated moderate output growth in 2024

- 2.1 Firms expect overall output to expand by 4 percent in 2024, lower than the 4.2 percent projected by the Ministry of Finance but higher than the 3.6 percent forecast by the International Monetary Fund for the same period. On quarterly basis, firms expect GDP to increase by 3.2 percent and 3.4 percent in the first and second quarters of 2024, respectively.
- 2.2 Notably, firms in the Mining and Quarrying; Manufacturing; Agriculture; Retail, Accommodation, Transport and Communications; and Finance, Professional and Administrative Activities sectors were optimistic about economic growth prospects in the first quarter of 2024, while the Construction and Real Estate sector was pessimistic (Chart 1). Meanwhile, all sectors except Agriculture, are optimistic about the second quarter of 2024 and the year ending March 2025, possibly due to government interventions to support economic activity, including reforms¹ to further improve the business environment. However, given the downside risks to global economic activity, including weaker global demand and adverse impact of the Russia-Ukraine and Israel-Hamas wars, the growth trajectory remains uncertain.

¹ These include continuation of the Economic Reform and Transformation Plan, infrastructure projects and initiatives announced in the 2024 Budget Speech and various new legislation and changes.



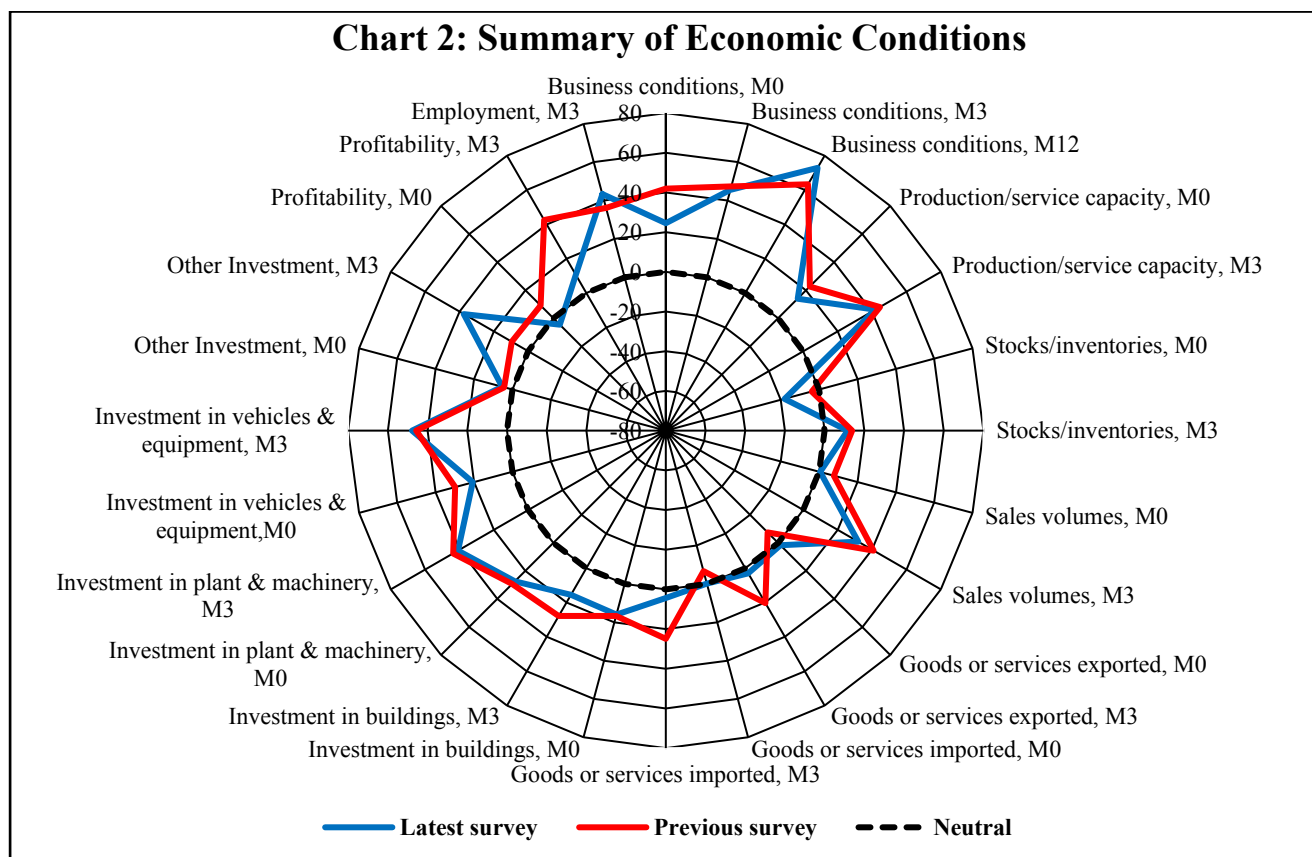
Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector's economic performance expectations for the first quarter of 2024 to M12 (the period from April 2024 to March 2025).
2. The net balances are weighted by each sector's relative share in GDP. For example, for a sector with (P+N) members in the sample, where 'P' indicates positive perceptions and 'N' negative perceptions, with a weight of Z percent in nominal GDP, the weighted net balance is calculated as $[(P-N)/(P+N) \times 100 \times Z]$.

2.3 Overall, firms led by the Mining and Quarrying; Manufacturing; Retail, Accommodation, Transport and Communications; and Finance, Professional and Administrative Activities sectors expected business conditions to remain positive in the first quarter of 2024 (Chart 2). However, this perceived improvement in economic performance is less than in the previous quarter. The reduced level of optimism in the first quarter of 2024 is reflected in the anticipated deceleration in growth of exports and imports of goods and services; production; inventories; profitability; investment in building, as well as plant and machinery, mainly due to the weaker global demand and adverse impact of the Russia-

Ukraine and Israel-Hamas wars. However, business conditions are expected to improve in the second quarter of 2024 and in the year to March 2025.

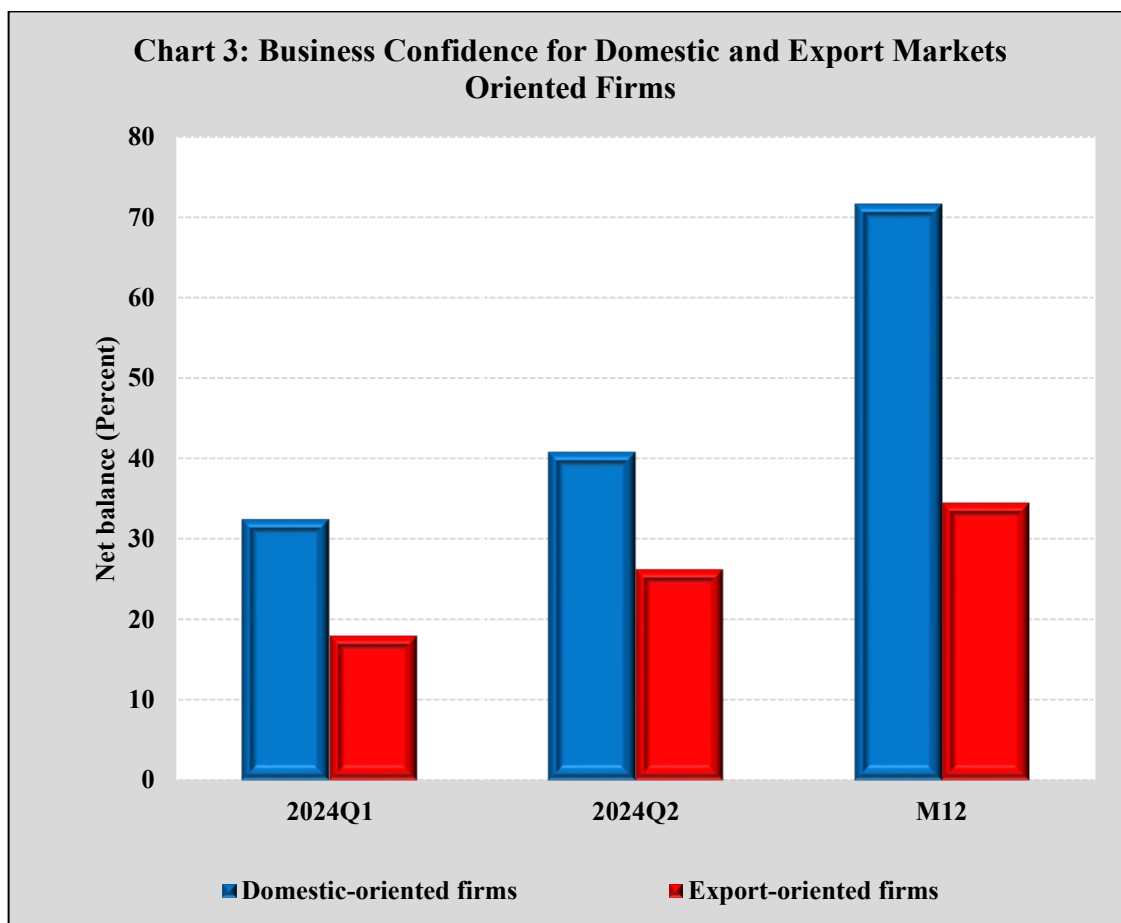


Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the March 2024 Survey, while the red line represents the results of the December 2023 Survey. The blackdashed line is the static position, representing unchanged expectations.
2. The net balances of how respondents view economic conditions are plotted along the slanted lines extending from the centre of the chart. Values moving further away from the 'static' line show an improvement, whereas those moving towards the centre of the chart represent a deterioration.
3. The results of the current survey, along the blue line, are interpreted as follows: M0 denotes perceptions about business conditions in the first quarter of 2024, M3 represents expectations about business conditions for the second quarter of 2024, while M12 depicts the perceived business conditions for the 12-month period from April 2024 to March 2025. The red line denotes perceptions about business conditions as envisaged in the previous survey.

2.4 Chart 3 shows that confidence among both domestic and export market-oriented firms increases for the second quarter of 2024, compared to the first quarter. Furthermore, the level of optimism by all firms improves markedly for the year to March 2025 (M12), consistent with the anticipated continued domestic economic recovery, as Government continues to implement measures to further improve the business environment. Confidence in the domestic market-oriented firms was mainly driven by firms within the Mining and Quarrying; Retail, Accommodation, Transport and Communications; Manufacturing; Agriculture; and Finance, Professional and Administrative Activities sectors.

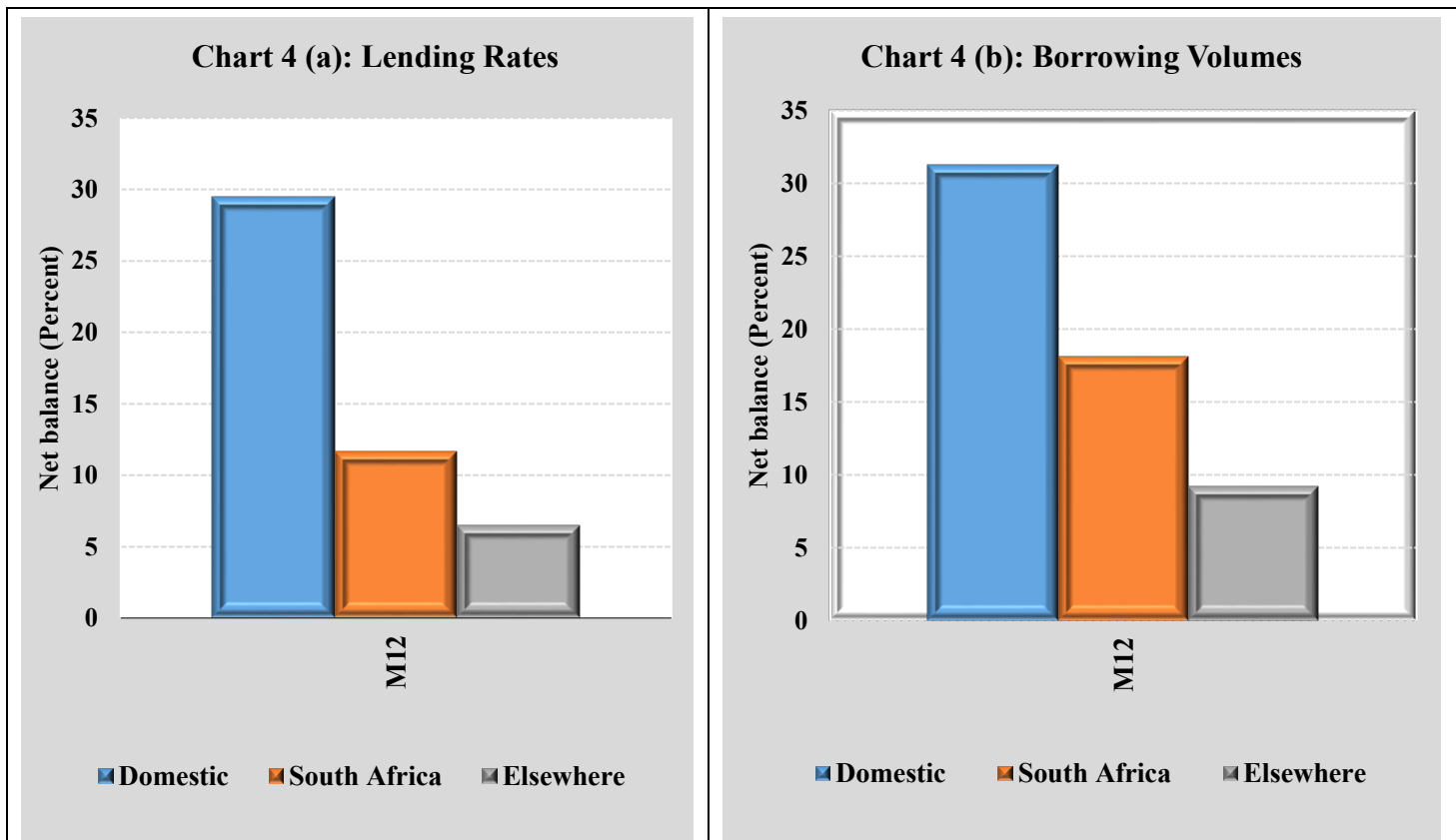


Source: Bank of Botswana

3. LENDING RATES AND BORROWING VOLUMES

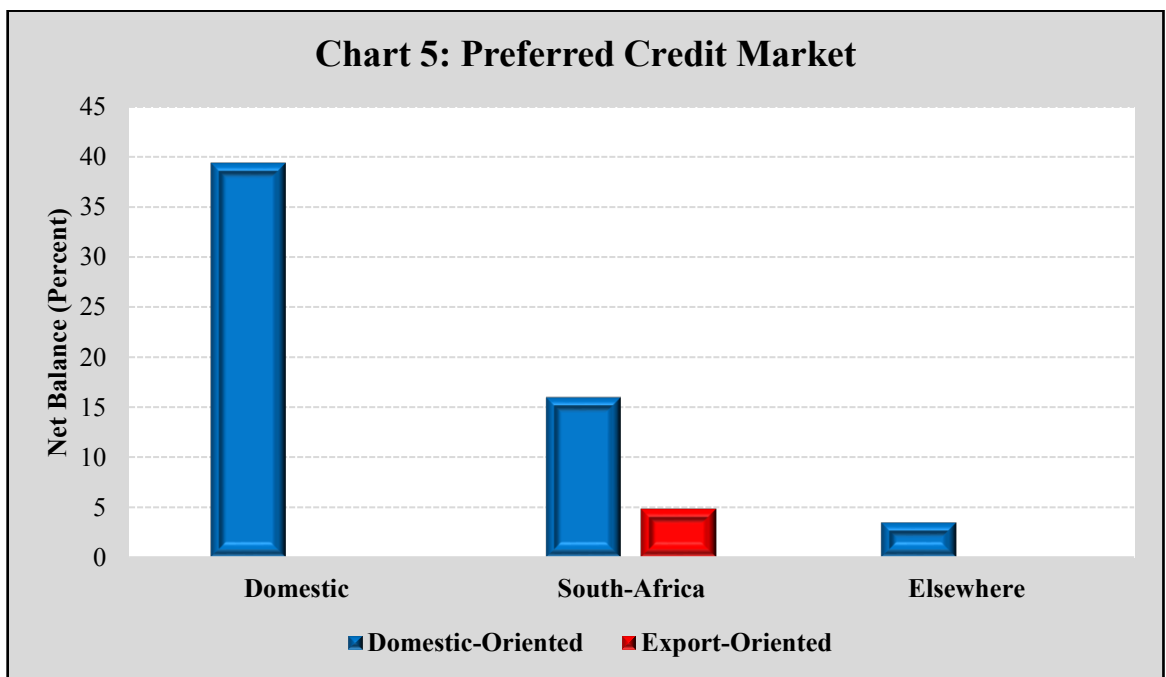
Expected increase in lending rates and borrowing volumes across all markets in the year to March 2025 (M12)

- 3.1 Firms expect lending rates and the volume of borrowing from all markets (domestically, in South Africa and elsewhere) to increase in the 12-month period to March 2025, as depicted by the positive net balances in Charts 4(a) and 4(b), respectively. The anticipated increase in borrowing volumes is consistent with the expected rise in investment and employment, possibly supported by the firms' expectation that domestic economic performance will improve during the same period. However, the expectation about increase in interest rates appears inconsistent with the anticipation of growth in borrowing volumes, as well as global forecasts of interest rates having peaked and expected to fall going forward.



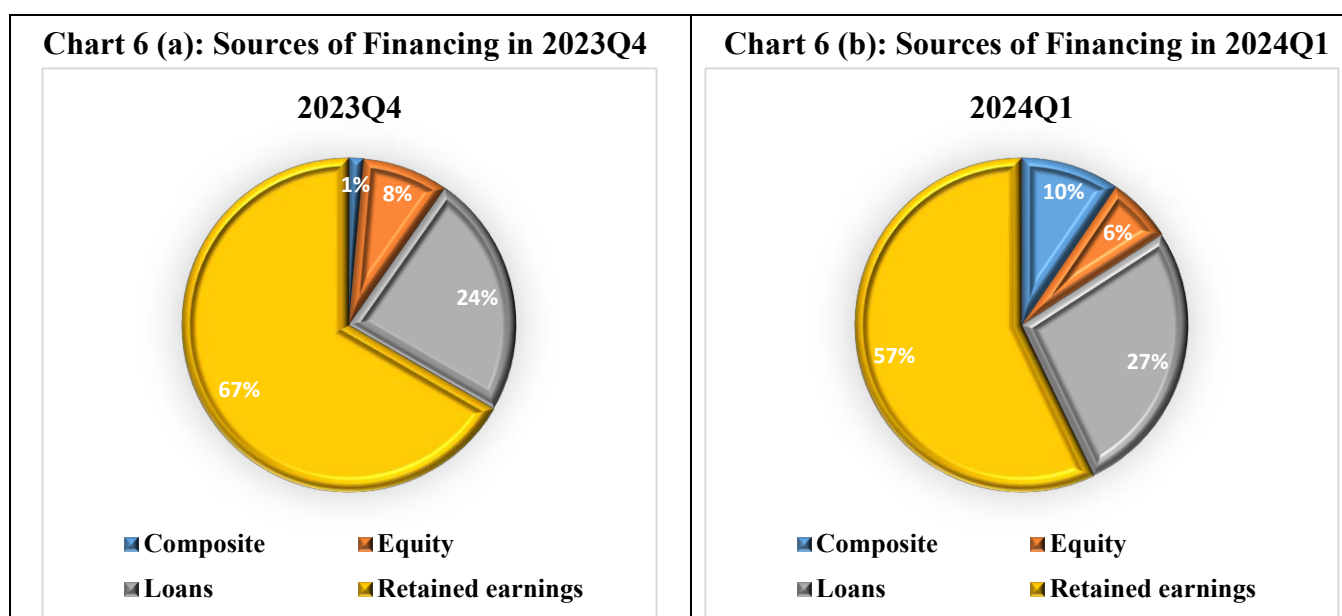
Source: Bank of Botswana

3.2 Firms in the domestic-oriented markets perceived easy access to credit from commercial banks in Botswana, in the first quarter of 2024, hence while some of them preferred to borrow in South Africa and elsewhere, a majority of them preferred to borrow domestically (Chart 5). Meanwhile, firms, in the export-oriented markets preferred to borrow from South-Africa.



Source: Bank of Botswana

- 3.3 Approximately 40 percent of the surveyed firms indicated that their choice of credit market was predicated on accessibility, while 30 percent indicated that their borrowing decisions were influenced by availability of appropriate credit facilities. Meanwhile, 15 percent of the firms cited affordability of suitable loan products, with another 15 percent citing a combination of factors such as accessibility, availability, or affordability of the required loan products as determinants of their preferred credit market.
- 3.4 Firms continued to prioritise financing their business operations primarily from retained earnings, consistent with the findings of the previous survey. This was followed by loans, composite (a combination of financing methods) and equity, in that order as shown in Charts 6 (a) and 6(b). The preference for using retained earnings as a source of financing was prevalent among all sectors. Meanwhile, some firms in sectors such as Finance, Professional and Administrative Activities; Manufacturing; Construction and Real Estate and Retail, Accommodation, Transport and Communications and Mining and Quarrying also ranked loans relatively high as a funding source.



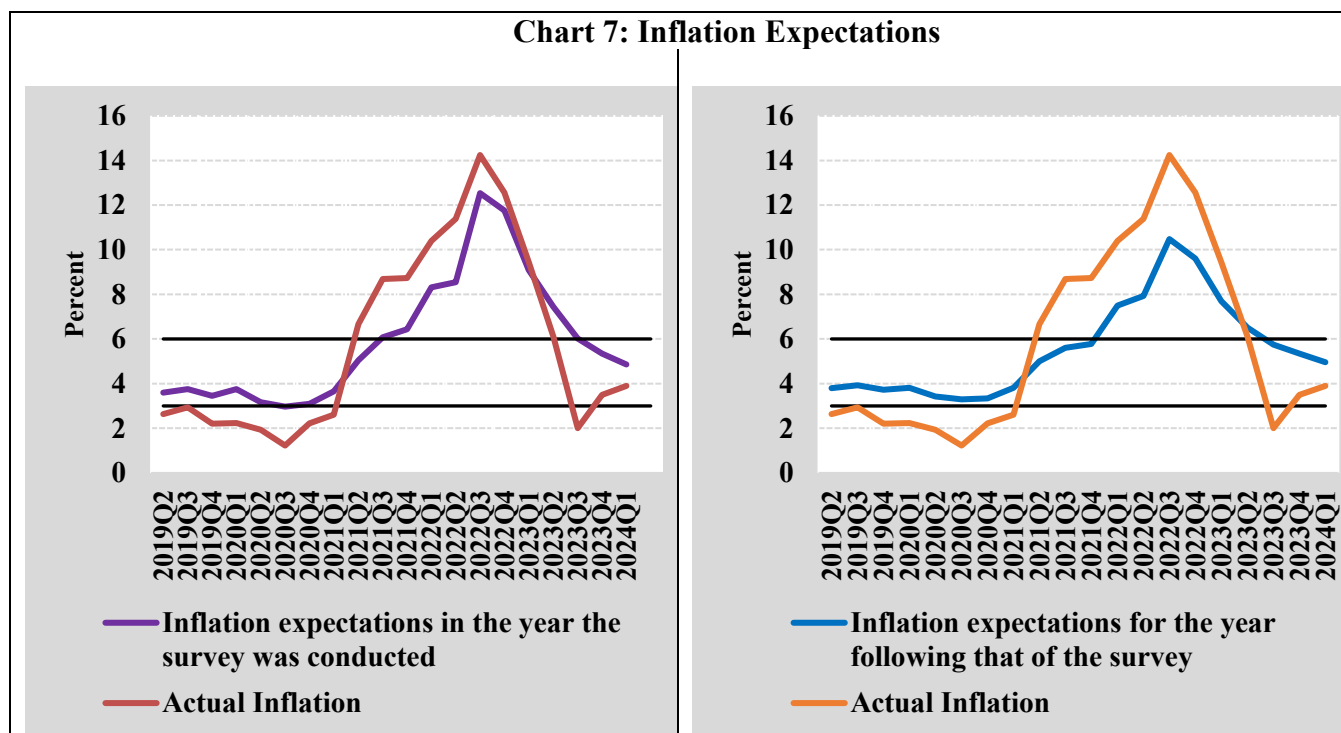
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to increase in the first quarter of 2024

- 4.1 Overall, firms expect cost pressures to rise in the first quarter of 2024, mainly attributable to the expected increase in some input costs, such as materials, utilities and transport, arising from anticipated supply constraints related to the Ukraine-Russia and Israel-Hamas wars. However, in the latest survey firms expected domestic inflation to be lower compared to the previous survey, averaging 4.9 percent for 2024 (5.4 percent in the previous survey) and 5 percent for 2025 (5.4 percent in the previous survey), thus remaining within the 3 – 6 percent objective range (Chart 7). This implies that inflation expectations are well anchored.

Chart 7: Inflation Expectations

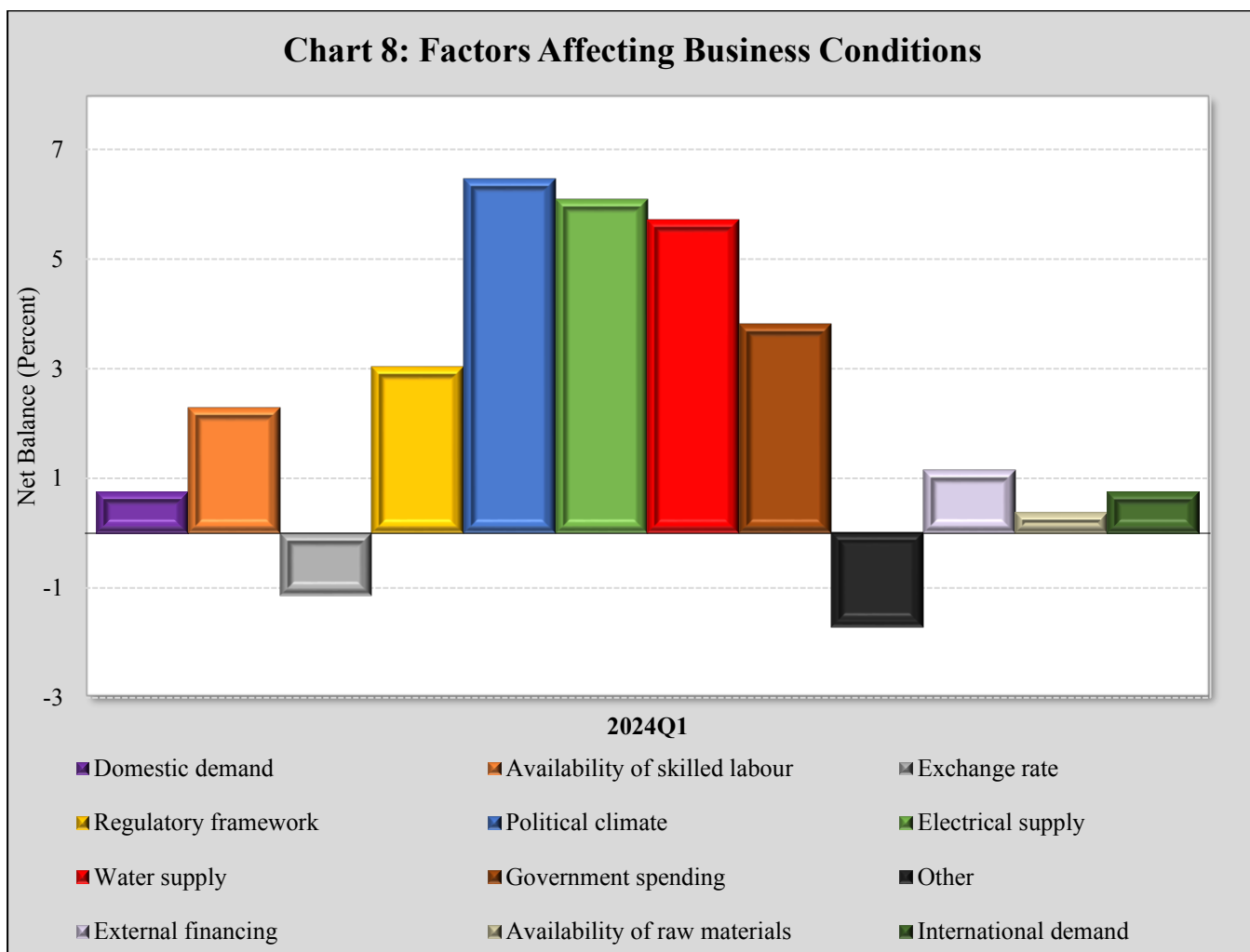


Source: Bank of Botswana

Notes: The charts show the average of inflation expectations across different surveys. In the case of inflation expectations for the year following that of the survey, the quarterly inflation expectations made in 2023 are about annual inflation in 2024, while those made in 2024 are about annual inflation in 2025.

5. FACTORS AFFECTING BUSINESS CONDITIONS IN THE FIRST QUARTER OF 2024

- 5.1 In the first quarter of 2024, most firms in the Mining and Quarrying; Retail, Accommodation, Transport and Communications; Manufacturing; Construction and Real Estate; and Finance, Professional and Administrative Activities sectors (Chart 8) considered the Pula exchange rate to be unfavourable to their business operations. This is mainly because these firms import raw materials from South Africa, hence they would prefer a much stronger Pula against the South African rand to reduce their import bill. Challenges categorised as ‘Other’ were cited as the second major impediment to doing business in Botswana. Such challenges include the supply constraints emanating from the Russia-Ukraine and Israel-Hamas wars; and the new citizen economic empowerment policies, which some firms considered unfavourable to foreign direct investment and locally operating businesses owned by foreigners.
- 5.2 On the positive side, adequate water and electricity supply, political climate, effective regulatory framework, adequate government spending, availability of skilled labour, external financing, and domestic and international demand, were considered supportive to doing business in Botswana in the first quarter of 2024 (Chart 8).



Source: Bank of Botswana

6. CONCLUSION

6.1 Overall, firms were less optimistic about business conditions in the first quarter of 2024, compared to the fourth quarter of 2023. Business conditions are expected to improve in the second quarter of 2024, and in the 12-month period to March 2025, supported by the anticipated improvement in employment and business investment. These improvements possibly reflect government interventions to support economic activity, including reforms to further improve the business environment, which are expected to boost growth prospects. However, given the downside risks to global economic activity, including weaker global demand and adverse impact of the Russia-Ukraine and Israel-Hamas wars, the growth trajectory remains uncertain. Firms expect the domestic economy to expand by 4 percent in 2024, while inflation is anticipated to average 4.9 percent and 5 percent in 2024 and 2025, respectively.



Gaborone Headquarters

17938, Khama Crescent, Gaborone, Botswana



(267) 360 6000



Private Bag 154, Gaborone, Botswana



Francistown Branch

9597, Thapama Circle, Francistown, Botswana



(267) 241 0450 / 240 0400



Private Bag F212, Francistown, Botswana



www.bankofbotswana.bw