

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



SEPTEMBER 2023
BANK OF BOTSWANA

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. 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. 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.
- 1.2 The September 2023 BES report presents business expectations about the third quarter of 2023 (M0), the fourth quarter of 2023 (M3); and the 12-month period from October 2023 – September 2024 (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; as well as Retail, Accommodation, Transport and Communications sectors were merged for ease of analysis. The response rate for the current survey improved to 71 percent compared to 60 percent in the June 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

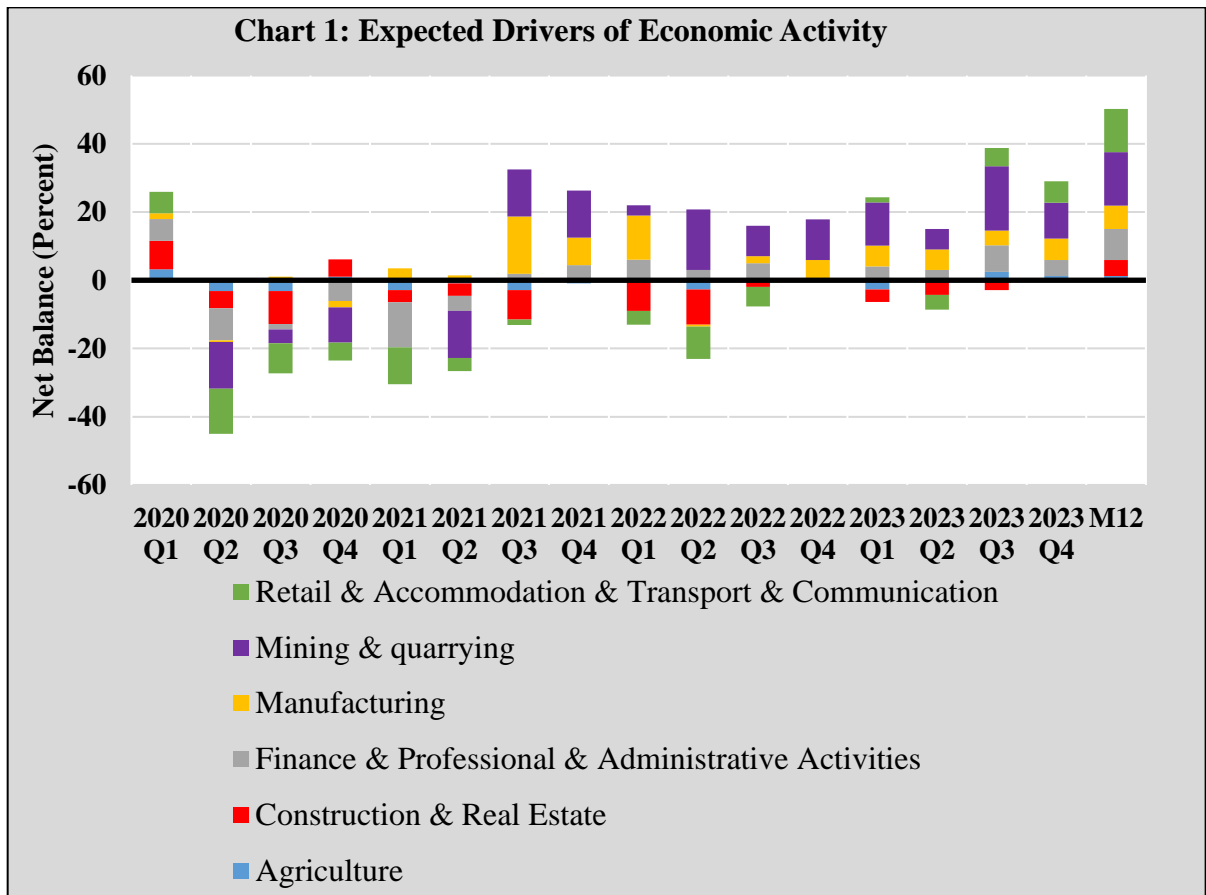
- 1.5 The results of the current BES indicate that firms are more optimistic about business conditions in the third quarter compared to the previous survey (second quarter of 2023). Firms anticipate tight access to credit across all markets (domestic, South Africa and elsewhere), as central banks continue to increase policy rates and/or maintain high interest rates amid elevated inflation. Firms expect cost pressures to be elevated in the third quarter of 2023, attributable to the relatively high fuel prices. Businesses expect inflation to revert to the Bank's 3 – 6 percent objective range in 2023 and remain within the objective range in 2024. Overall, the anticipated improvement in output of the Mining and Quarrying; Manufacturing; Retail Accommodation, Transport and Communications; Finance, Professional and Administrative Activities sectors; and Agriculture sectors is expected to have a positive impact on aggregate domestic economic performance in the third quarter.

2. Business Conditions and Economic Performance

Moderate increase in output growth in 2023

- 2.1 Firms expect overall output to expand by 4.3 percent in 2023, higher than the 3.8 percent projected by the Ministry of Finance and the International Monetary Fund, for the same period. On quarterly basis, firms, in general, expect GDP to increase by 3.9 percent and 3.8 percent in the third and fourth quarters of 2023, 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 third quarter of 2023, while the Construction and Real Estate sector was pessimistic (Chart 1). Meanwhile, all sectors except Construction and Real Estate, which is neutral, are optimistic about the fourth quarter of 2023 and the year ending September 2024, possibly supported by government interventions to support economic activity, including through continued implementation of the Economic Recovery and Transformation Plan (ERTP) and the potentially expansionary two-year Transitional National Development Plan (TNDP). Furthermore, reforms¹ to further improve the business environment, as well as the new sales and mining agreement between the Government of Botswana and De Beers Group are potentially positive growth prospects. However, given the downside risks to global economic activity, including weaker global demand and adverse impact of the Russia-Ukraine war, the growth trajectory remains uncertain.

¹ Reforms such as the passing of the Credit Information and Movable Property Acts by Parliament to improve access to credit by micro, small and medium enterprises; approval of the Public Procurement Act, to promote citizen participation in the procurement process and support locally manufactured goods.



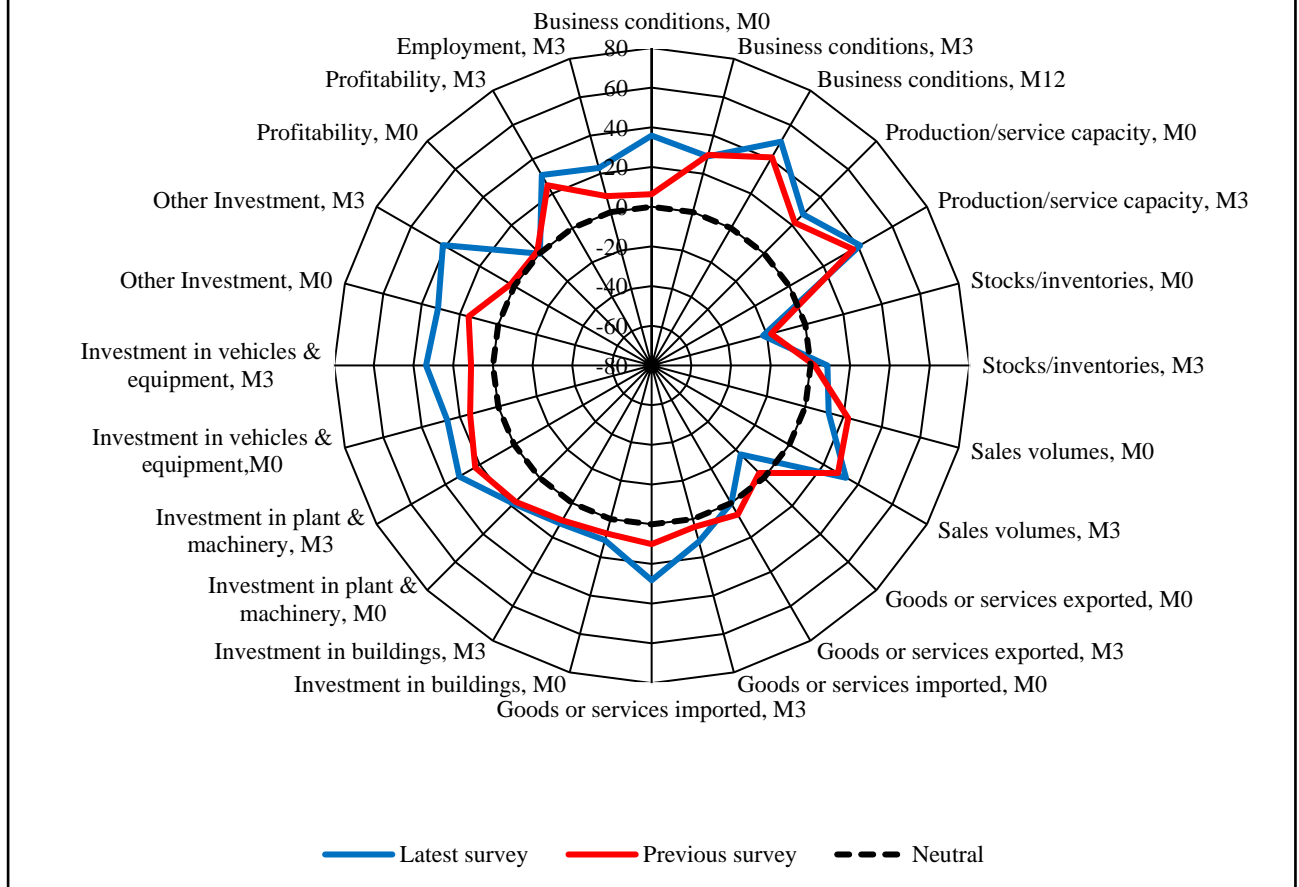
Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector’s economic performance expectations for the first quarter of 2020 to M12 (the period from October 2023 to September 2024).
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] x 100 x Z].

2.3 Overall, firms expect business conditions to improve in the third quarter of 2023 (Chart 2). They anticipate improvements in investment in plant, machinery, buildings, vehicles, equipment, and other investment, in the third quarter of 2023, compared to the second quarter of 2023. These, in combination with expectations of increased growth in the Mining and Quarrying; Finance, Professional and Administrative Activities; Retail, Accommodation, Transport and Communications; Manufacturing; and Agriculture sectors contribute to the improved expectations about overall business conditions. However, business conditions are expected to weaken but remain positive in the fourth quarter of 2023, compared to 2023Q3, before improving sizeably in the 12-month period to September 2024.

Chart 2: Summary of Economic Conditions

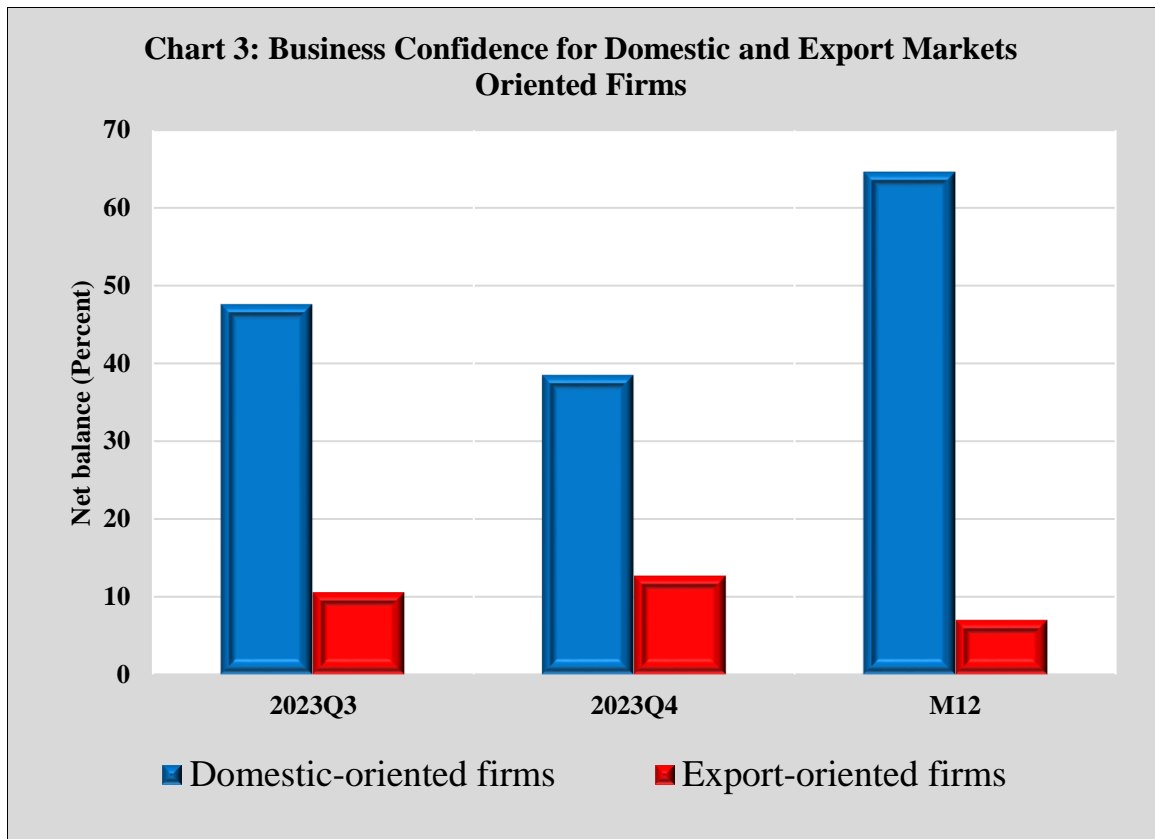


Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the September 2023 Survey, while the red line represents the results of the June 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 third quarter of 2023, M3 represents expectations about business conditions for the fourth quarter of 2023, while M12 depicts the perceived business conditions for the 12-months period from October 2023 to September 2024. The red line denotes perceptions about business conditions as envisaged in the previous survey.

2.4 Chart 3 shows that confidence among domestic market-oriented firms reduces in the fourth quarter of 2023, compared to the third quarter of 2023. Nonetheless the level of optimism improves in the 12-month period to September 2024 (M12), consistent with the anticipated continued domestic economic recovery. Confidence in the domestic market-oriented firms is mainly driven by firms within the Mining and Quarrying; Retail, Accommodation, Transport and Communications; Manufacturing; and Finance, Professional and Administrative Activities sectors. Meanwhile, optimism about business conditions among export-oriented firms, increases in the fourth quarter of 2023, compared to the third quarter, before declining in the year ending September 2024.

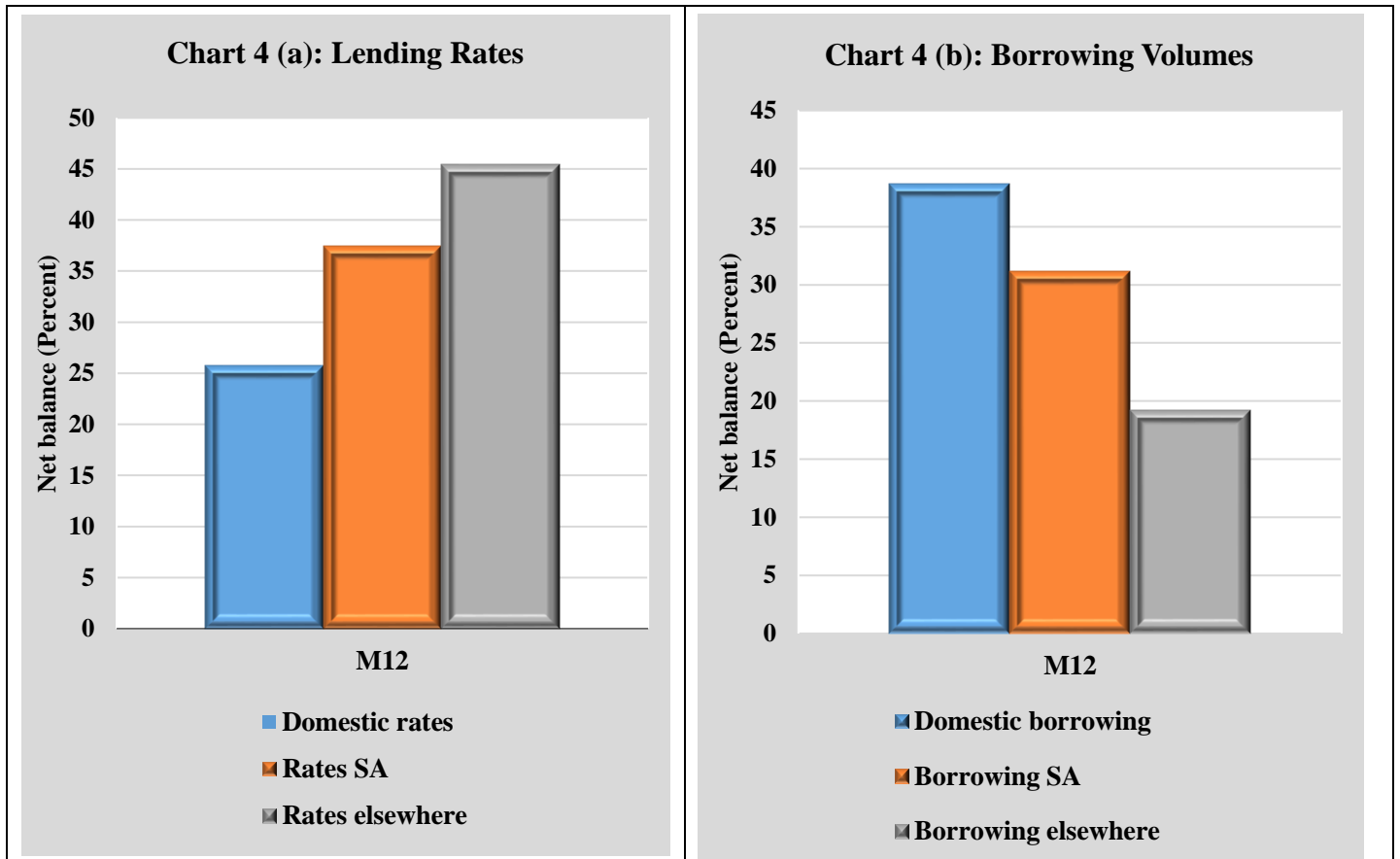


Source: Bank of Botswana

3. Lending Rates and Borrowing Volumes

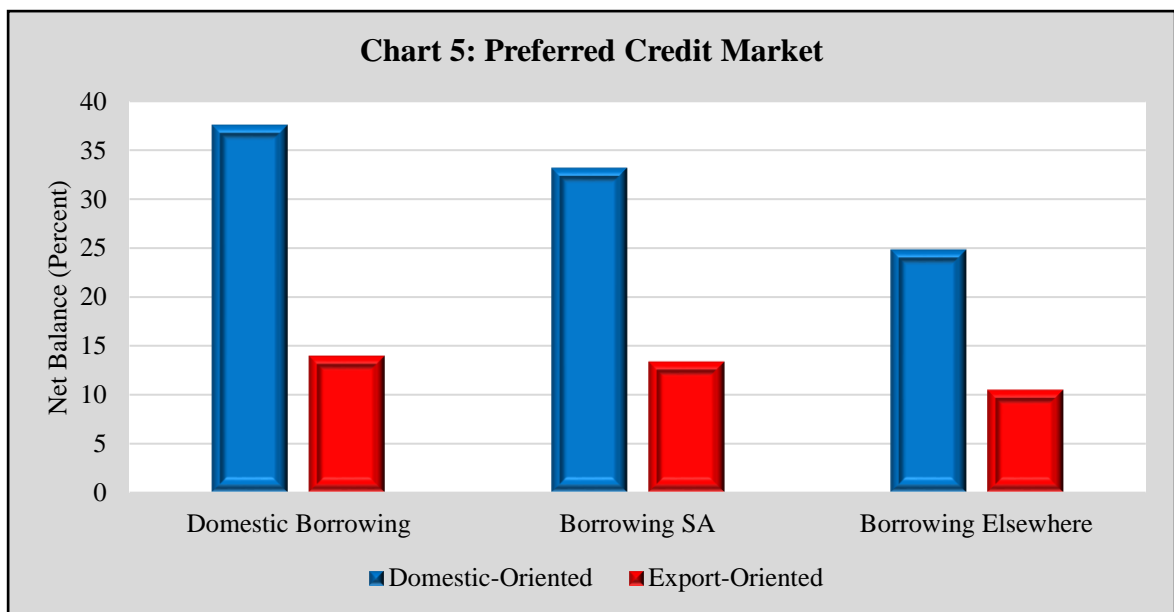
Expected increase in lending rates and borrowing volumes across all markets in the year to September 2024 (M12)

- 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 September 2024, as depicted by the positive net balances (Chart 4). This is consistent with the expected rise in investment, production capacity, sales volume, and profitability, possibly supported by the domestic-oriented firms’ anticipation that domestic economic performance will improve during the period. Consistent with anticipated lower increase in domestic lending rates compared to other markets, borrowing volumes are expected to be higher in the domestic market.



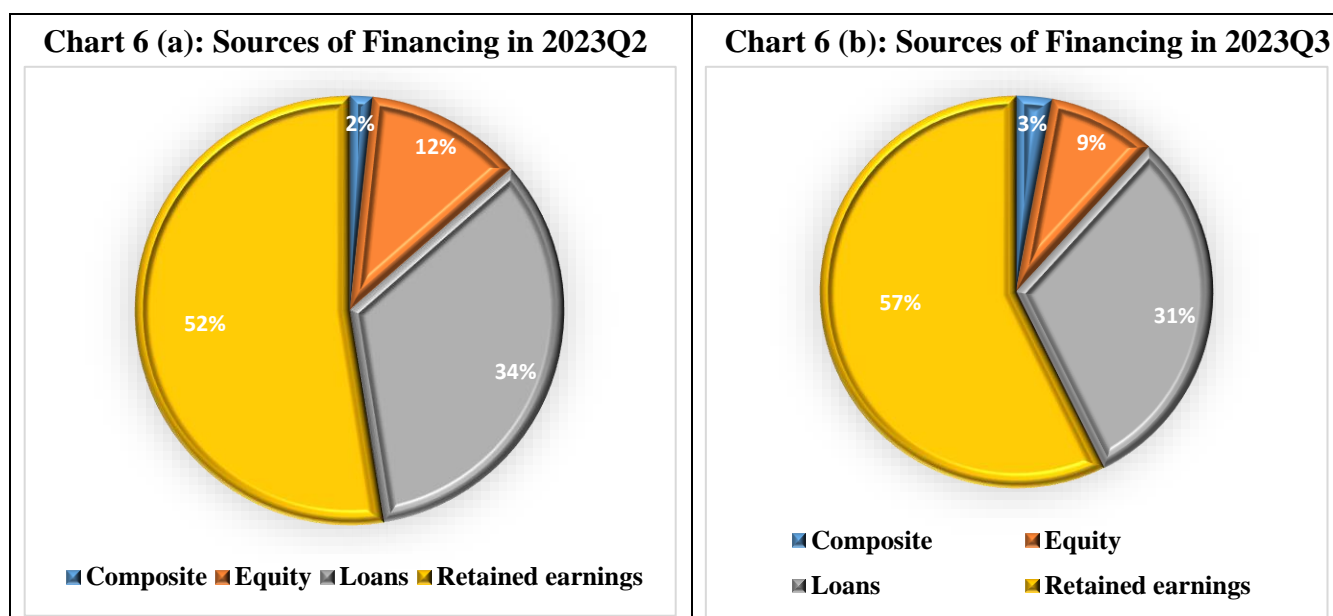
Source: Bank of Botswana

3.2 Firms in both the domestic and export-oriented markets perceived access to credit in the third quarter of 2023 to be tight, reflecting the increase in interest rates by most central banks across the world, to combat high inflation. Nonetheless, firms, irrespective of their target market, mainly prefer to borrow from the domestic market compared to other markets, due to accessibility considerations.



Source: Bank of Botswana

- 3.3 Approximately 38 percent of the surveyed firms indicated that their choice of credit market was predicated on accessibility, while 35 percent indicated that their borrowing decisions were influenced by availability of appropriate credit facilities. Meanwhile, 17 percent of the firms cited affordability of suitable loan products, while 10 percent cited a combination of either accessibility, availability or affordability of the required loan products as determinants of their preferred credit market.
- 3.4 Firms mainly prefer to finance their business operations from retained earnings, as was the case in the previous survey. This is followed by loans, equity and composite (combination of financing), in that order (Chart 6). Retained earnings as a preferred source of financing was prevalent among all sectors. On the other hand, most of the firms in the Construction and Real Estate and Retail, Accommodation, Transport and Communications sectors preferred loans as a funding source.



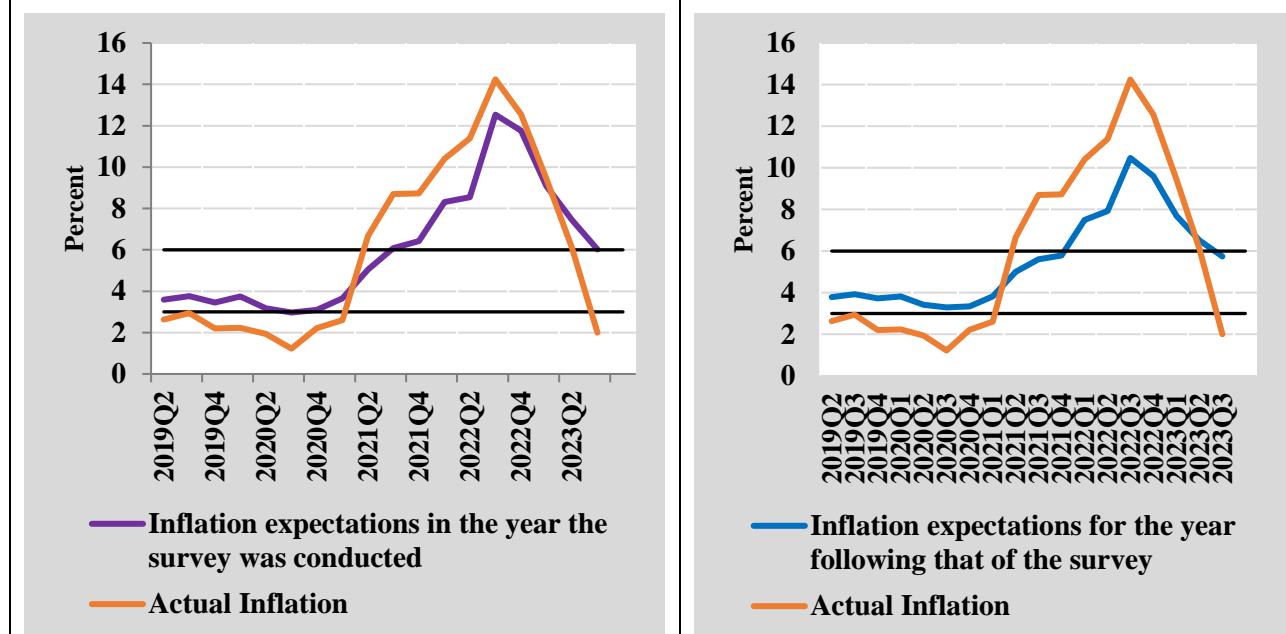
Source: Bank of Botswana

4 Price Developments and Inflation

Cost pressures expected to increase in the third quarter of 2023

- 4.1 Overall, firms expect cost pressures to rise in the third quarter of 2023, mainly attributable to the increase in some input costs, such as materials, utilities, rent, wages and transport costs, in line with the upward adjustment in domestic fuel prices in September 2023. However, firms' expectations about domestic inflation decreased, compared to the previous survey, and have reverted to the Bank's 3 – 6 percent objective range from 2023 (Chart 7), averaging 6 percent for 2023 (7.4 percent in the previous survey) and 5.7 percent for 2024 (6.5 percent in the previous survey). This suggest that inflation expectations are well anchored, which is good for maintenance of price stability.

Chart 7: Inflation Expectations

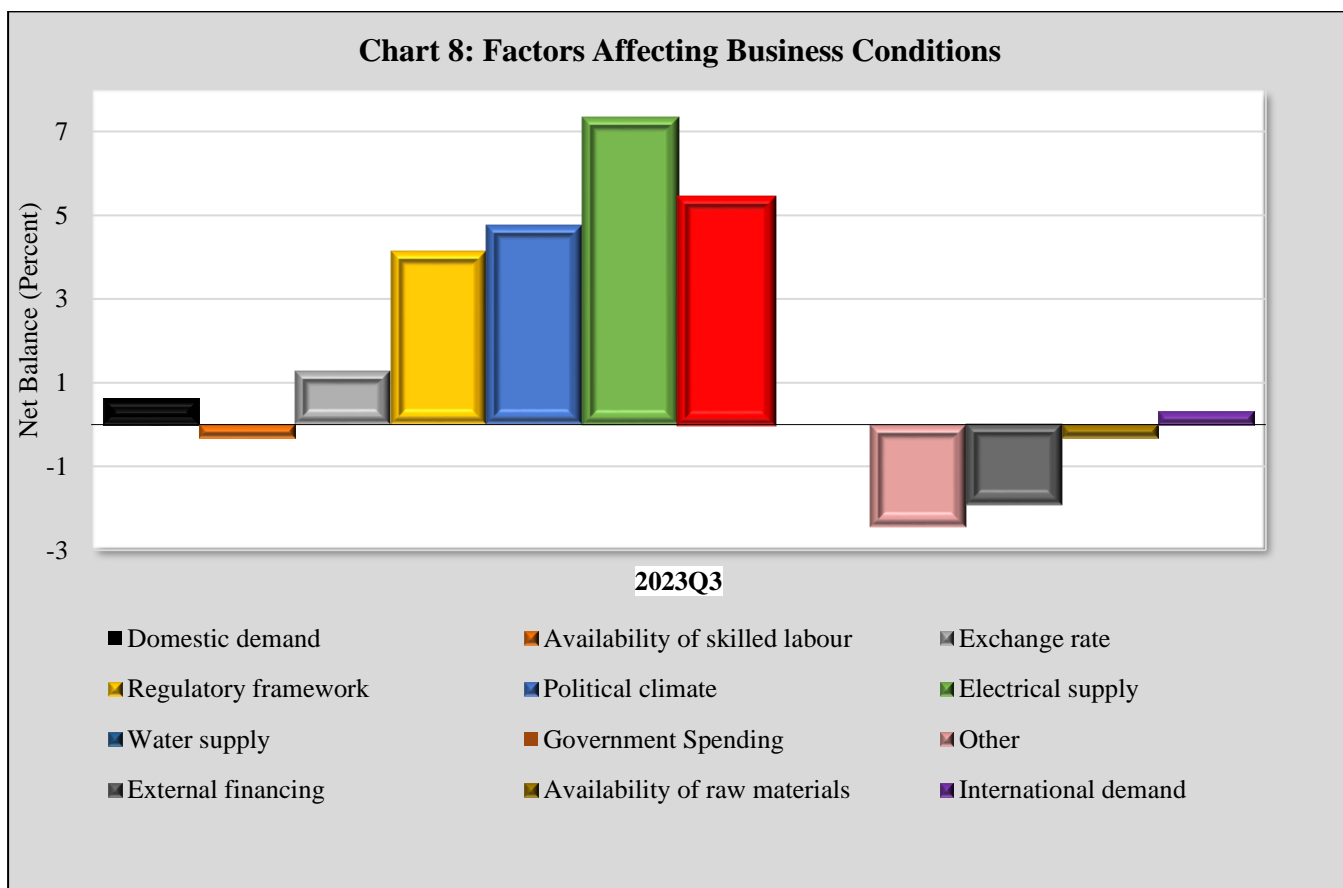


Source: Bank of Botswana

Notes: The chart shows 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 2022 are about annual inflation in 2023, while those made in 2023 are about annual inflation in 2024.

5. Factors Affecting Business Conditions in the Third Quarter of 2023

- 5.1 Firms, in all sectors except Mining and Quarrying, and Manufacturing cited ‘other’ challenges as a major impediment to doing business in Botswana (Chart 8). These challenges include high animal feed cost; high fuel prices; and the new citizen economic empowerment initiatives, which some firms considered unfavourable to foreign direct investment. Inability to raise external financing was also considered to be a drag on business operations, mainly by firms in Retail, Accommodation, Transport and Communications; Manufacturing; Construction and Real Estate; and Finance, Professional and Administrative Activities.
- 5.2 On the positive side, adequate water and electricity supply, favourable political climate, effective regulatory framework, favourable exchange rate, and domestic and international demand, were considered supportive to doing business in Botswana in the third quarter of 2023 (Chart 8).



Source: Bank of Botswana

6. Conclusion

- 6.1 Overall, firms were more optimistic about business conditions in the third quarter of 2023 compared to the second quarter of 2023. Going forward, business conditions are expected to decline in the fourth quarter of 2023, followed by improvement in the 12-month period to September 2024, supported by the anticipated improvement in production capacity, goods or services imported and business investment. These improvements possibly reflect government interventions to support economic activity, including through continued implementation of the E RTP and the potentially expansionary two-year TNDP, as well as 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 war, the growth trajectory remains uncertain. Firms expect the economy to expand by 4.3 percent in 2023, while inflation is anticipated to average 6 percent and 5.7 percent in 2023 and 2024, respectively.