



# THE QUARTELY BUSINESS EXPECTATIONS SURVEY

DECEMBER | 2025



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## **1. Introduction**

### **(a) Description of the Survey**

- 1.1 The quarterly Business Expectations Survey (BES), conducted by the Bank of Botswana (the Bank), collects information on perceptions within the domestic business community regarding the current economic conditions and expectations over the survey horizon. The survey covers 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 responded to questions on various topics, including the prevailing business conditions, the outlook for economic growth and inflation, as well as anticipated business performance in the survey horizon.
- 1.2 The December 2025 BES report presents business expectations about the fourth quarter of 2025 (M0), the first quarter of 2026 (M3); and the 12 months from January 2026 to December 2026 (M12). 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. Some sectors are aggregated due to their interlinkages to facilitate coherent analysis. The survey recorded a response rate of 50 percent, compared to 51 percent in the September 2025 survey.
- 1.3 The survey questions mainly focus on the anticipated direction of change in selected indicators. That is, whether they are expected to improve, remain unchanged or worsen. The results are then consolidated into a net balance, a measure obtained by summing up the positive and negative responses to each question by firms in the same sector. The net balances are then weighed by each sector's relative share of Gross Domestic Product (GDP). Thus, by design, the survey responses are predominantly qualitative and provide valuable information about business sentiments to facilitate analysis and inform policy decisions. However, information on expected GDP growth and inflation is quantitative and reported as simple averages, while information on firms' choice of credit markets and sources of financing is expressed as proportions, that is, the percentage of firms selecting each option. As such, the results should be interpreted as indicative of sentiment and directional trends rather than accurate point forecasts.

### **(b) Highlights of the Survey Results**

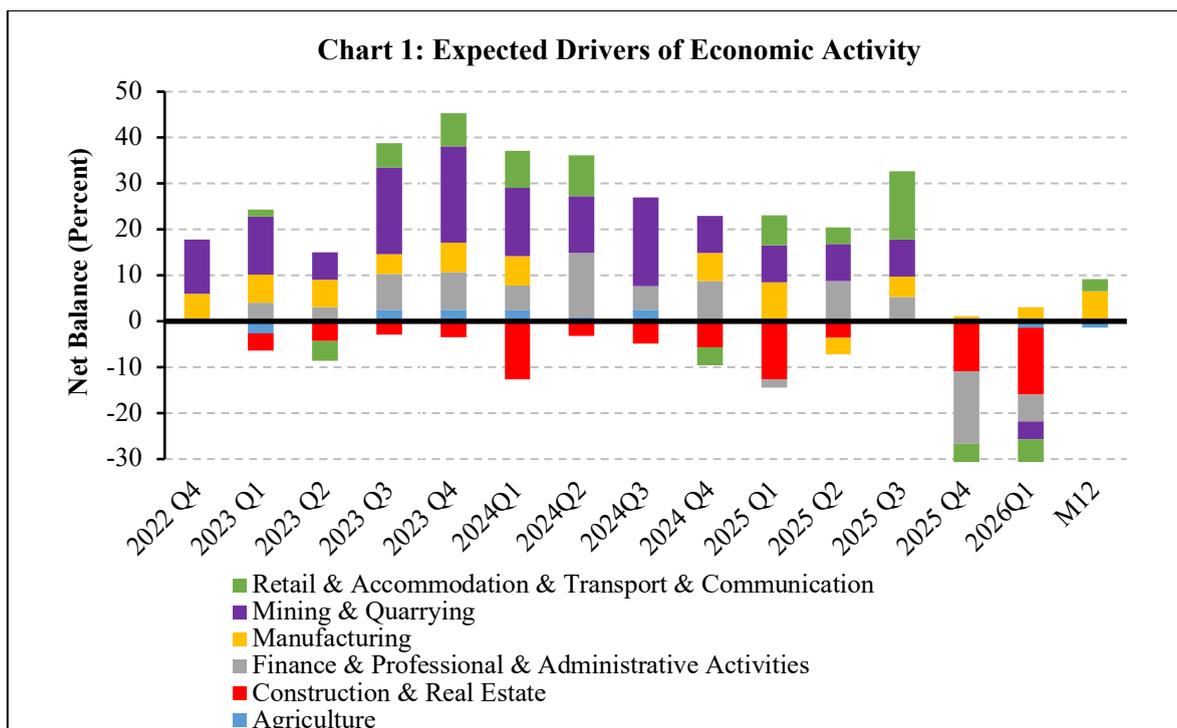
Firms were generally pessimistic about business conditions in the fourth quarter of 2025, marking a shift from the optimism recorded in the third quarter of 2025. Businesses in the Construction and Real Estate; Finance, Professional, and Administrative Activities; and Retail, Accommodation, Transport and Communication sectors expressed a pessimistic view. Meanwhile, sentiment in the Mining and Quarrying and Agriculture sectors remained broadly neutral, while firms in the Manufacturing sector reported an optimistic outlook. However, sentiment improved, with firms becoming generally optimistic about business conditions in the 12 months to December 2026. As in the previous survey, firms cite constrained government spending, reflecting the country's weaker fiscal position, as a major

challenge to business operations. In addition, businesses perceived the exchange rate environment to be unfavourable, linked to spillover effects from the adjustment of exchange rate parameters in July 2025. Firms also expect both lending interest rates and borrowing volumes to increase in the year to December 2026. Meanwhile, firms expected overall cost pressures to slightly increase in the fourth quarter of 2025. However, they anticipated inflation to remain within the 3 – 6 percent objective range in 2025 and 2026, suggesting well-anchored inflation expectations.

## **2. Business Conditions and Economic Performance**

### ***Sluggish output growth anticipated in 2025***

- 2.1 Firms expect overall output to expand slightly by 0.5 percent in 2025, marking an improvement from the realised contraction of 2.8 percent in 2024. This expectation suggests a stabilisation in growth momentum, although it differs from the Ministry of Finance’s revised projection of a 0.5 percent contraction for 2025 and should, therefore, be interpreted as indicative of business sentiment rather than a formal growth forecast. For the fourth quarter of 2025 and the first quarter of 2026, firms expect modest growth of 0.4 percent and 0.9 percent, respectively.
- 2.2 Firms in the Manufacturing sector were optimistic that business conditions would be supportive of economic activity in the fourth quarter of 2025. In contrast, firms in the Construction and Real Estate; Finance, Professional, and Administrative Activities; and Retail, Accommodation, Transport and Communication sectors were pessimistic. Meanwhile, firms in Mining and Quarrying and Agriculture sectors remained neutral (Chart 1).
- 2.3 Looking ahead to the first quarter of 2026, firms in Manufacturing remained optimistic, anticipating favourable business conditions that are expected to support economic activity (Chart 1). In contrast, firms in Mining and Quarrying; Construction and Real Estate; Finance, Professional, and Administrative Activities; and Retail, Accommodation, Transport and Communication sectors were pessimistic about business conditions over the same period.



Source: Bank of Botswana

Notes:

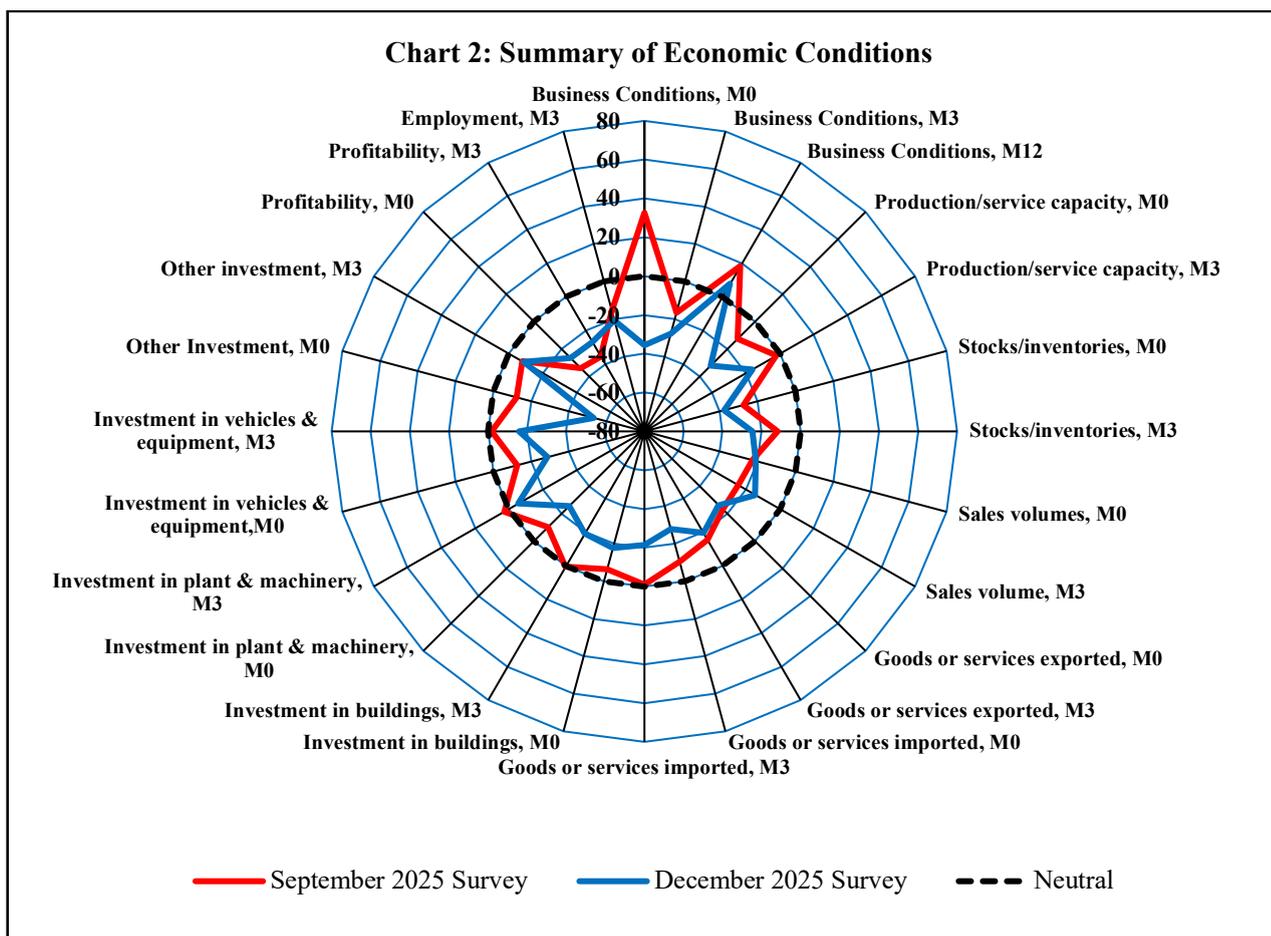
1. The chart shows net balances on each sector's economic performance expectations for the fourth quarter of 2025 and the first quarter of 2026, and the whole of 2026 (M12).
2. The net balances are weighted by each sector's relative share of GDP. For example, for a sector with (P+N) members in the sample, where 'P' indicates those with positive perceptions and 'N' those with negative perceptions, with a weight of Z percent in nominal GDP, the weighted net balance is calculated as  $[(P-N)/(P+N) \times 100 \times Z]$ .

2.4 Firms in the Retail, Accommodation, Transport and Communications and Manufacturing sectors were optimistic about business conditions in 2026, while firms in the Agriculture sector held a pessimistic view. In contrast, businesses in the Construction and Real Estate; Mining and Quarrying; Finance, Professional, and Administrative Activities businesses expressed a neutral outlook. This neutral sentiment likely reflects uncertainty amid a constrained fiscal environment, as well as the persistent downturn in the diamond industry affecting Mining and Quarrying category<sup>1</sup>.

2.5 Overall, firms anticipated continued weakness, with business conditions expected to be less supportive of economic activity in the fourth quarter of 2025 and the first quarter of 2026 (Chart 2). The cautious outlook is consistent with the weaker fiscal position, characterised by lower government revenue, constrained cash flow and, therefore, restrained pace of government spending, largely due to significantly reduced diamond export earnings. However, firms expressed optimism for 2026, and this could be attributed to the anticipated benefits from government initiatives aimed at supporting economic recovery and improving the business environment. These include measures and proposals outlined in the Botswana Economic Transformation Programme and the twelfth National Development Plan (NDP 12)<sup>2</sup>.

<sup>1</sup> Except for diamonds, the market for other minerals is generally positive.

<sup>2</sup> These include, amongst others, economic diversification which embraces green and digital economy, focusing on sectors such as tourism, agriculture, and manufacturing.

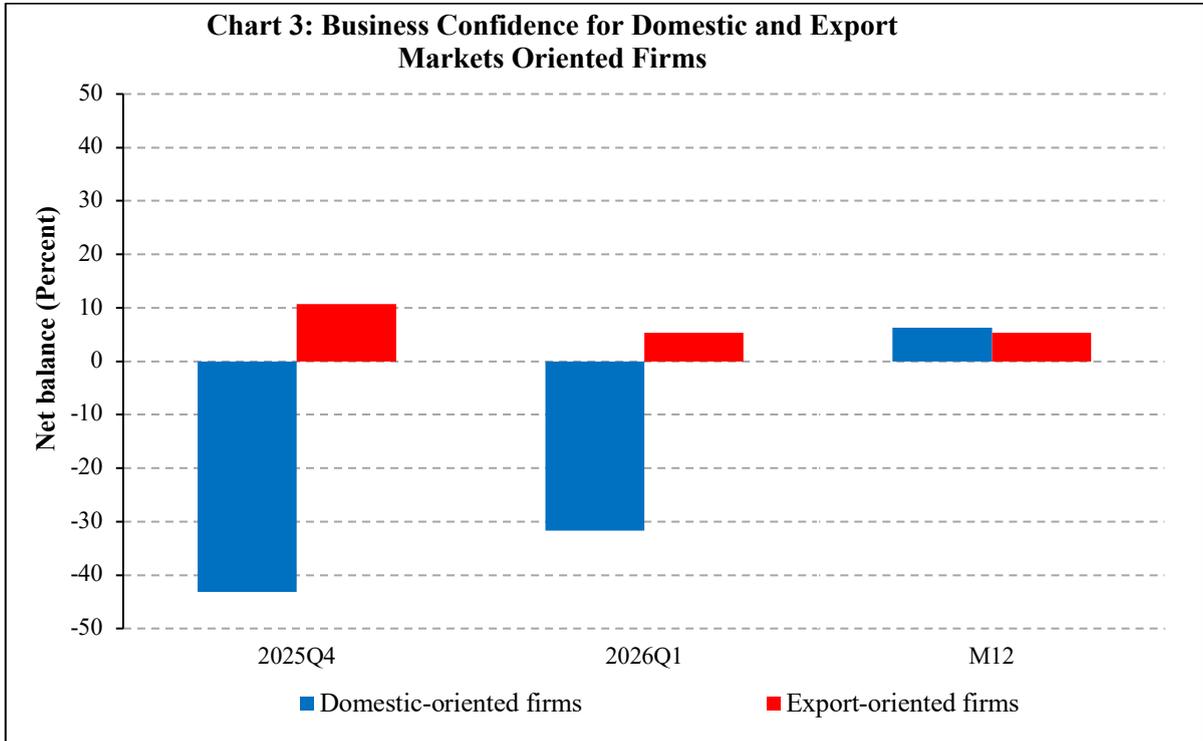


Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the September 2025 Survey, while the red line represents the results of the December 2025 Survey. The blackdashed line is the static position, representing neutral 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 away from the centre of the chart show an improvement, whereas those moving towards the centre of the chart represent a deterioration.
  3. The current survey results, shown by the red line, are interpreted as business conditions expected in the fourth quarter of 2025 (M0), the first quarter of 2026 (M3), and the 12 months to December 2026 (M12).
- 2.6 Chart 3 indicates that expectations among domestic market-oriented firms were pessimistic for the fourth quarter of 2025 and the first quarter of 2026. However, business confidence was slightly positive for the entire 2026. The improvement in confidence was mainly driven by firms in the Manufacturing and Retail, Accommodation, Transport and Communication sectors. The more cautious sentiment reflects uncertainty surrounding input and import costs, global economic performance and potential for supply chain disruptions associated with heightened geopolitical tensions and policy responses, which, alongside the weaker domestic demand, may constrain business activity.
- 2.7 By contrast, export-oriented firms reported positive business confidence across the entire survey horizon, covering the fourth quarter of 2025, first quarter of 2026 and the

whole of 2026. This positive outlook is consistent with the exchange rate policy adjustments of July 2025, aimed at supporting export competitiveness, as well as the anticipated positive impact of government initiatives focused on economic transformation.

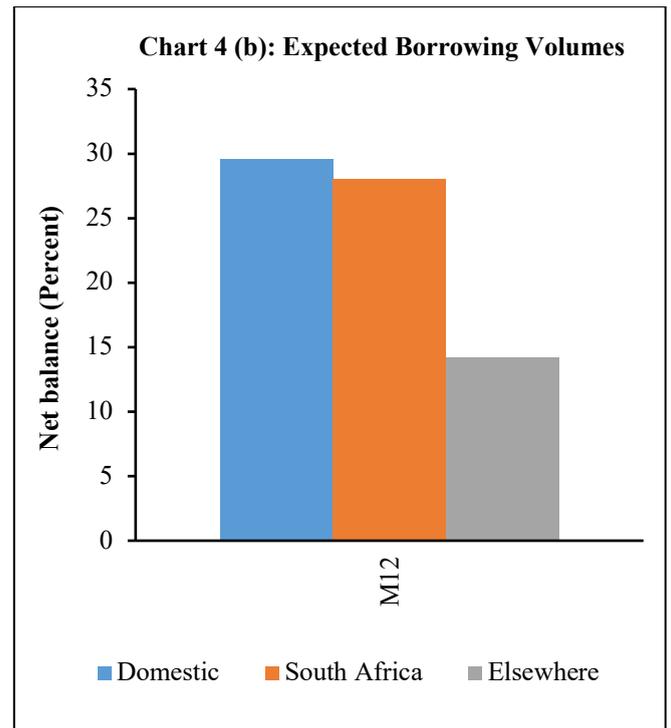
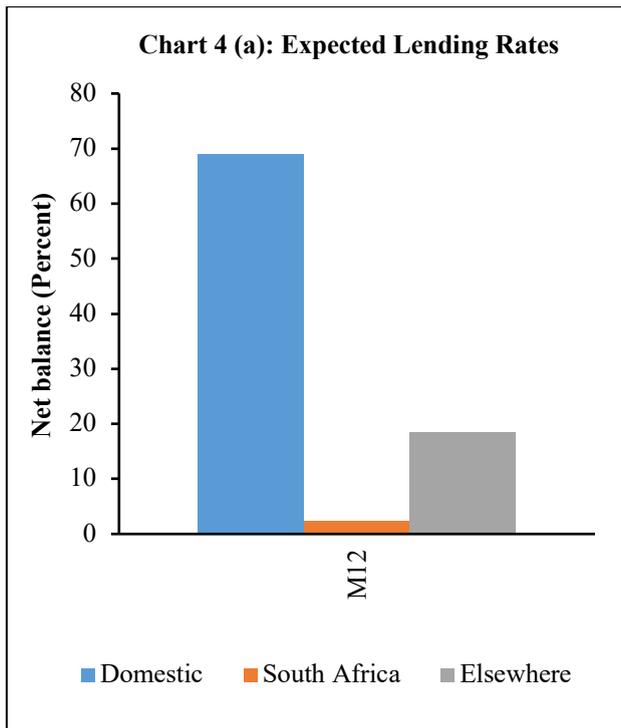


Source: Bank of Botswana

### 3. Lending Interest Rates and Borrowing Volumes

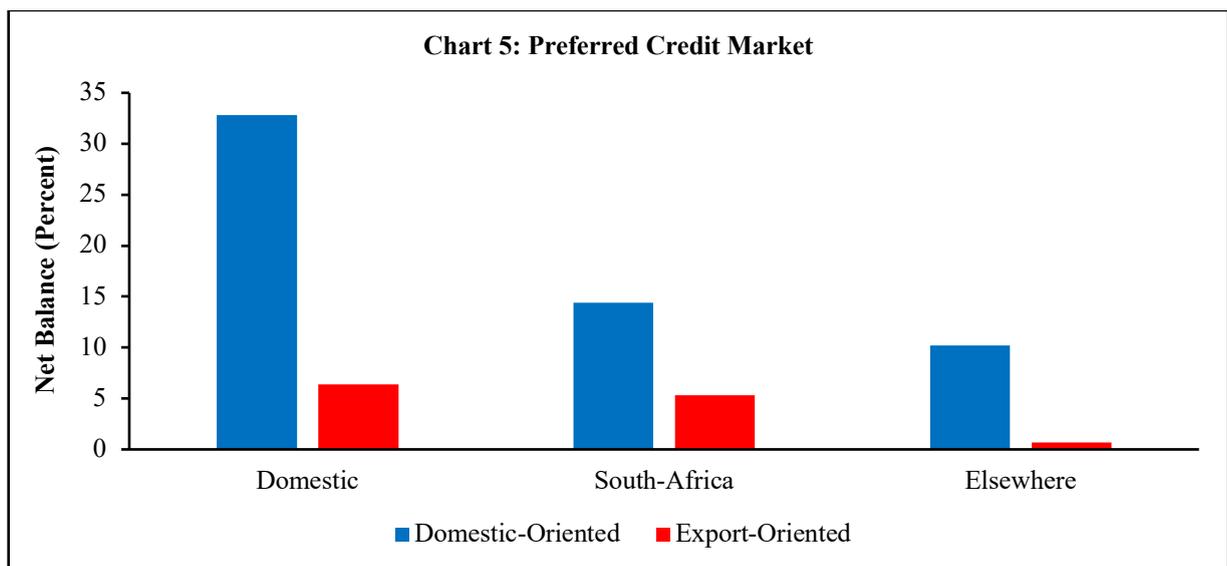
*Expected increase in lending interest rates and borrowing volumes across all markets in 2026 (M12)*

3.1 Firms expect lending interest rates to increase across all markets (domestic, South Africa and elsewhere) in 2026, with the strongest increase anticipated in the domestic market (Chart 4a). This expectation is most likely informed by higher domestic lending interest rates amid liquidity distribution challenges and weak economic activity. By contrast, fewer firms expect lending interest rates to increase in South Africa, and this could be attributable to reductions in the policy interest rate (repo rate) in November 2025, which resulted in a lower cost of borrowing. Notwithstanding the anticipated rise in lending interest rates, firms also expect borrowing volumes to rise across all markets over the same period (Chart 4b), with most firms preferring to borrow domestically and in South Africa. This increase may reflect rising working-capital requirements and liquidity needs rather than expansionary investment intentions. At the same time, investments and funding requirements associated with the Botswana Economic Transformation Programme may also engender an increased appetite for borrowing.



Source: Bank of Botswana

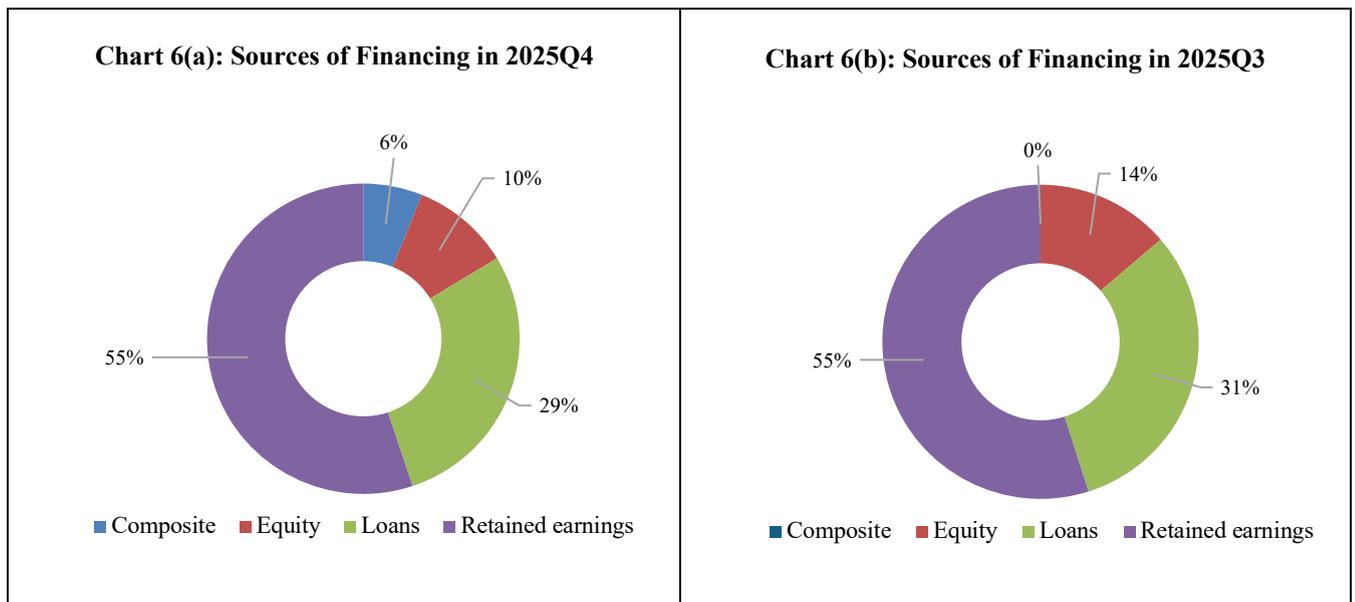
3.2 Most domestic and export market-oriented firms preferred borrowing locally (Botswana) compared to South Africa and elsewhere in the fourth quarter of 2025 (Chart 5), indicating continued reliance on domestic credit markets.



Source: Bank of Botswana

3.3 Approximately 50 percent of the firms surveyed indicated that their choice of credit market was mainly influenced by the accessibility of appropriate credit facilities. A further 23 percent cited affordability of credit, while another 23 percent were influenced by the availability of suitable loans. Meanwhile, 4 percent of firms reported that a combination of availability and accessibility played a key role in deciding 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 and equity as shown in Chart 6 (a) and (b). However, in the fourth quarter of 2025, the proportion of firms that preferred equity financing and loans slightly decreased to 10 percent and 29 percent, from 14 percent and 31 percent, respectively, relative to the previous survey. Meanwhile, six percent of the firms preferred composite source of financing compared to none recorded in the previous survey. The preference to use retained earnings as a source of financing was prevalent across most sectors. However, some firms in sectors such as Manufacturing; Finance, Professional and Administrative Activities; Retail, Accommodation, Transport and Communication and Mining and Quarrying placed a relatively higher preference on loans as a source of financing, reflecting sector-specific financing needs and potentially greater engagement with formal credit markets.

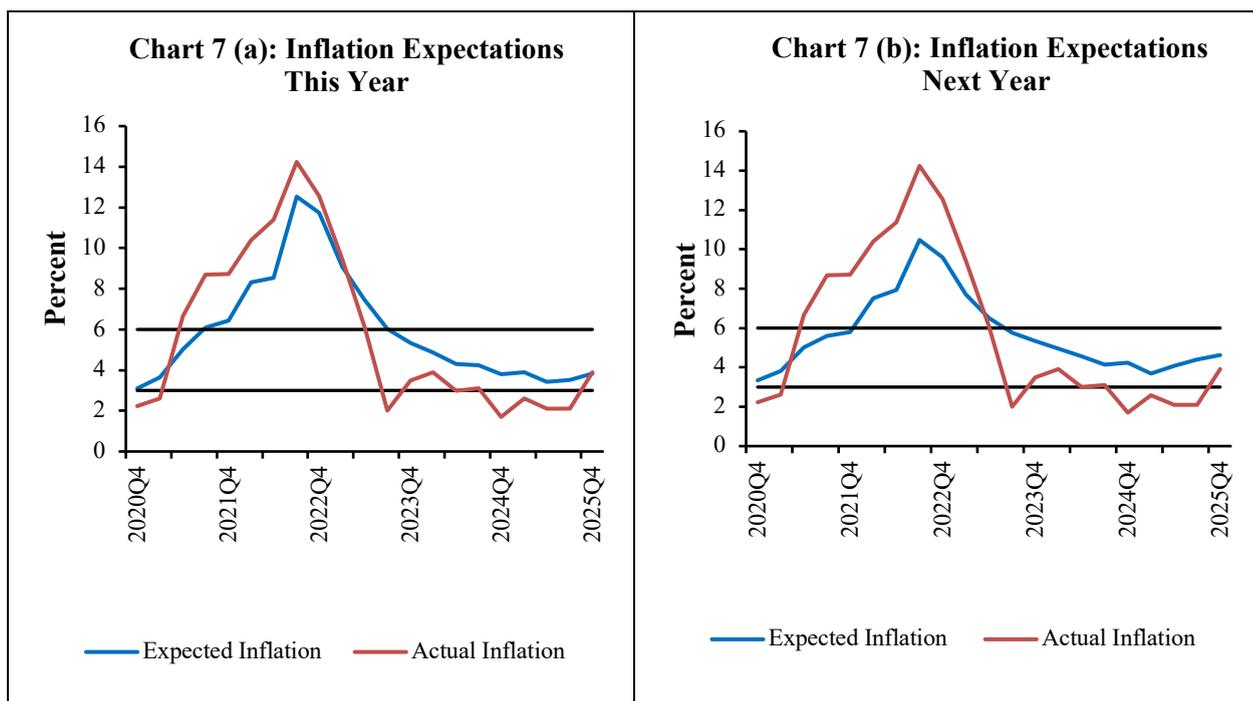


Source: Bank of Botswana

#### 4. Price Developments and Inflation

##### *Cost pressures expected to increase in the fourth quarter of 2025*

4.1 Overall, firms expected cost pressures to increase slightly in the fourth quarter of 2025 compared to the third quarter, mainly due to the anticipated increase in input costs, particularly for materials, rent, utilities and transport. As a result, firms expected domestic inflation to average 3.8 percent in 2025, slightly higher than the 3.5 percent in the previous survey, before rising to an average of 4.6 percent in 2026 (Charts 7a and 7b). Nonetheless, firms expect inflation to remain within the 3 – 6 percent medium-term objective range in 2026, indicating that inflation expectations remain well anchored despite rising cost pressures.



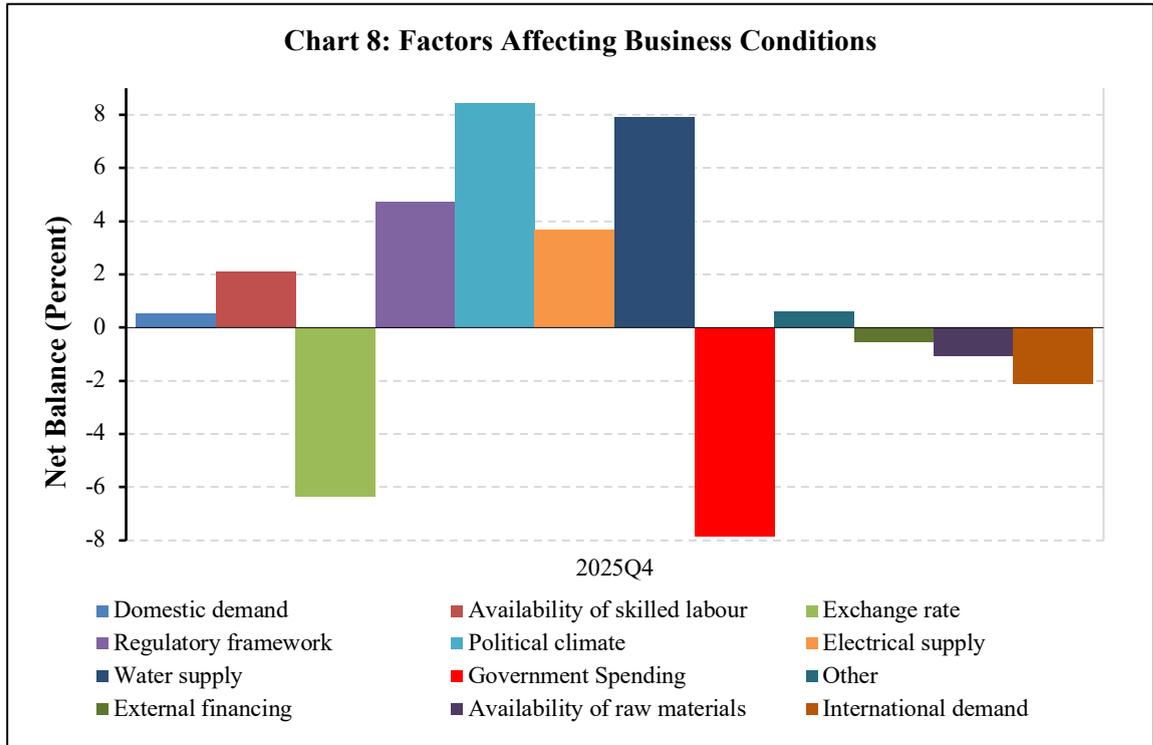
Source: Bank of Botswana

Note: The charts show the average inflation expectations across different surveys. In the case of inflation expectations next year, the quarterly inflation expectations made in 2025 are about inflation in 2026.

## 5. Factors Affecting Business Conditions in the fourth Quarter of 2025

5.1 As in the previous survey, firms cited constrained government spending and an unfavourable exchange rate<sup>3</sup> environment as the major factors adversely affecting business operations in the fourth quarter of 2025. The cautious fiscal stance is consistent with the country's weak fiscal position, largely due to lower earnings from diamond exports. Other challenges indicated by firms include subdued international demand, lack of availability of raw materials, and constrained external financing. On the positive side, firms highlighted several supportive conditions for business activity. These include reliable water supply, a stable political environment, a predictable regulatory framework, the availability of skilled labour, and steady domestic demand. These factors are viewed as contributing positively to the business environment, even though the broader operating context remains challenging (Chart 8).

<sup>3</sup> Importing firms are generally of the view that the depreciation of the Pula against the South African rand in the fourth quarter of 2025 made imports relatively more expensive.



Source: Bank of Botswana

## 6. Conclusion

- 6.1 Overall, firms were pessimistic about business conditions in the fourth quarter of 2025 compared to the optimism recorded in the third quarter, reflecting constrained operating conditions in the near term. The pessimistic outlook reflects the country’s weaker fiscal position, marked by lower government revenue, constrained cash flow and, therefore, restrained pace of government spending. However, firms were optimistic over the 12-month period to December 2026, reflecting the expected impact of government transformation initiatives under the BETP and NDP 12. Meanwhile, firms expect the domestic economy to grow modestly by 0.5 percent in 2025, down from 0.7 percent anticipated in the previous survey. Inflation is expected to average 4.6 percent in 2026, indicating that inflation expectations remain well anchored within the 3 – 6 percent objective range.