

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



DECEMBER 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 December 2023 BES report presents business expectations about the fourth quarter of 2023 (M0), the first quarter of 2024 (M3); and the 12-month period from January 2024 – December 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 is 72 percent compared to 71 percent in the September 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

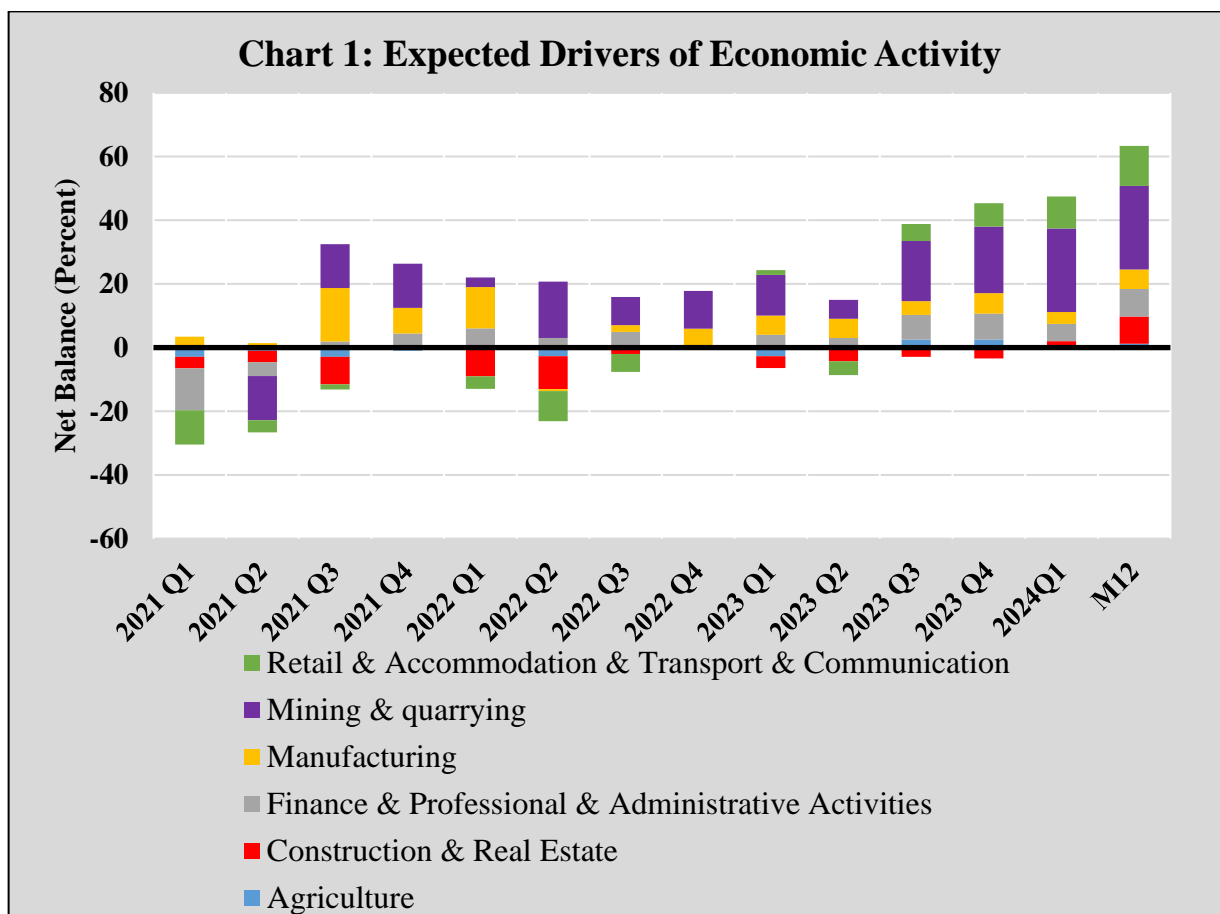
- 1.5 The results of the current BES indicate that firms are more optimistic about business conditions in the fourth quarter compared to the previous survey (third quarter of 2023). The businesses expect inflation to remain within the Bank's 3 – 6 percent objective range in 2023 and 2024. Firms also anticipate improvement in output of the Mining and Quarrying; Manufacturing; Agriculture; Retail Accommodation, Transport and Communications; and Finance, Professional and Administrative Activities sectors, and this has a positive impact on aggregate domestic economic performance in the fourth quarter of 2023. However, firms anticipate lending rates to remain elevated across all markets (Domestic, South Africa and Elsewhere), following maintenance of high interest rates by central banks amid elevated inflation. Moreover, firms expect cost pressures to be high in the fourth quarter of 2023, mainly due to supply constraints arising from the Ukraine-Russia and Israel-Hamas wars.

2. **Business Conditions and Economic Performance**

Moderate increase in output growth in 2023

- 2.1 Firms expect overall output to expand by 3.7 percent in 2023, slightly lower than the 3.8 percent projected by both the Ministry of Finance and the International Monetary Fund, for the same period. On quarterly basis, firms expect GDP to increase by 3.6 percent in both the fourth quarter of 2023 and the first quarter of 2024.
- 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 fourth quarter of 2023, while the Construction and Real Estate sector was pessimistic (Chart 1). Meanwhile, all sectors except Agriculture, which is neutral, are optimistic about the first quarter of 2024 and the year ending December 2024, possibly supported by government interventions to support economic activity, including the potentially expansionary two-year Transitional National Development Plan (TNDP) and 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 Reforms, such as the promulgation of the Credit Information Act and Movable Property Act, both of which have the potential to make credit more accessible. Other reforms include the Temo Letlotlo; Village Connectivity; Government Online Services and the Development Manager Model, which will be used for the efficient and effective implementation of projects across the country.

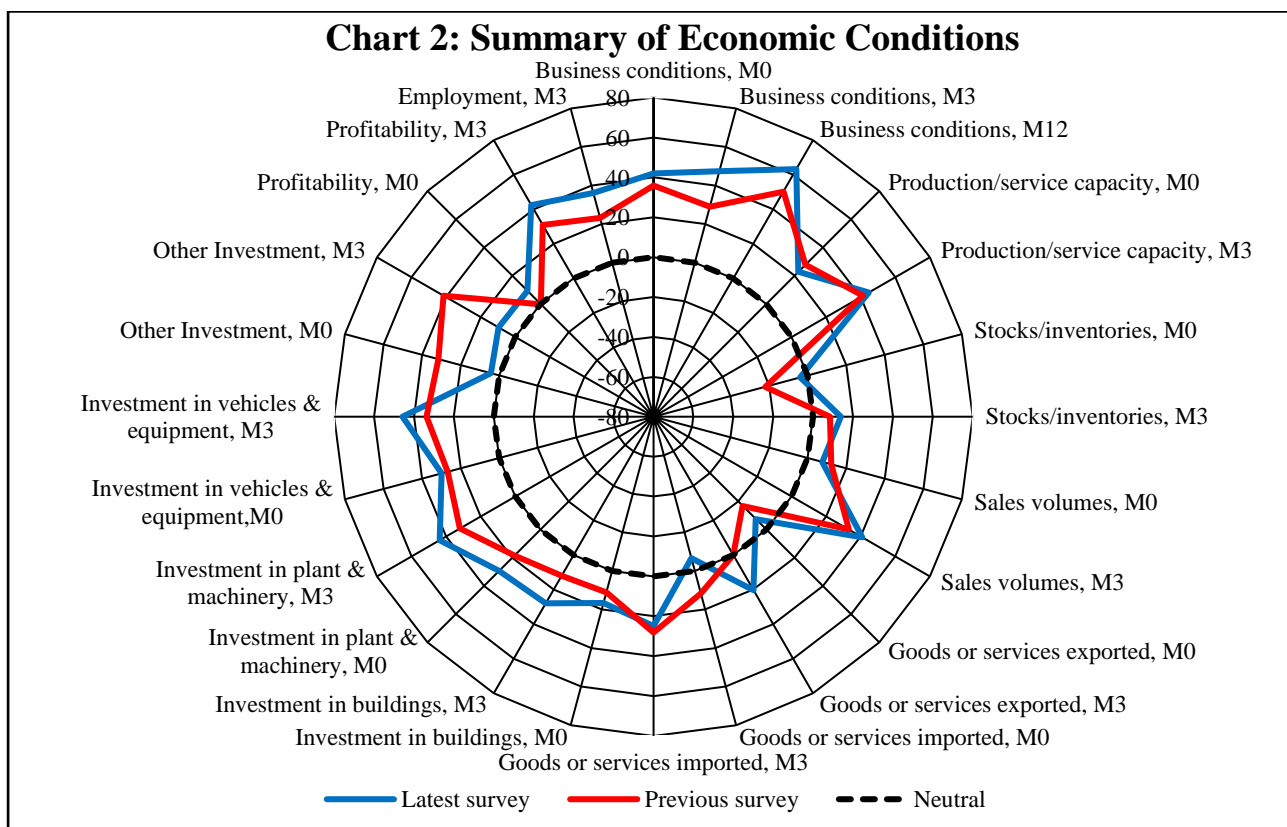


Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector's economic performance expectations for the first quarter of 2021 to M12 (the period from January 2024 to December 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 $[(P-N)/(P+N) \times 100 \times Z]$.

2.3 Overall, firms expect business conditions to improve in the fourth quarter of 2023 (Chart 2). They anticipate improvements in investment in plant, machinery, buildings, vehicles, equipment, stocks, profitability and goods and services exported, in the fourth quarter of 2023, compared to the third quarter of 2023. These, in combination with expectations of increased growth in all sectors, except Construction and Real Estate, contribute to the improved confidence about overall business conditions. Moreover, business conditions are expected to improve further in the first quarter of 2024, as well as in the entire year.

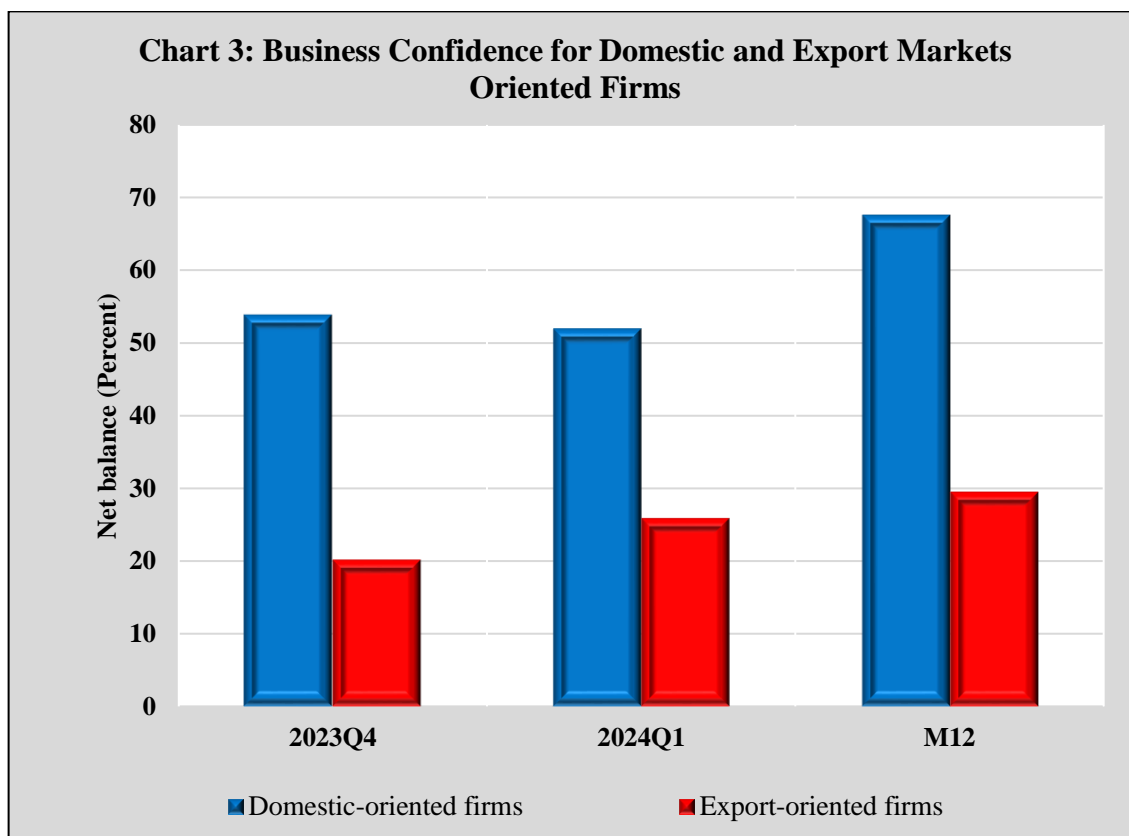


Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the December 2023 Survey, while the red line represents the results of the September 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 fourth quarter of 2023, M3 represents expectations about business conditions for the first quarter of 2024, while M12 depicts the perceived business conditions for the 12-month period from January 2024 to December 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 declines slightly in the first quarter of 2024, compared to the fourth quarter of 2023. However, the level of optimism improves remarkably during the whole of 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; Agriculture; and Finance, Professional and Administrative Activities sectors. Meanwhile, optimism about business conditions among export-oriented firms, increases in the first quarter of 2024 and in the year ending December 2024.

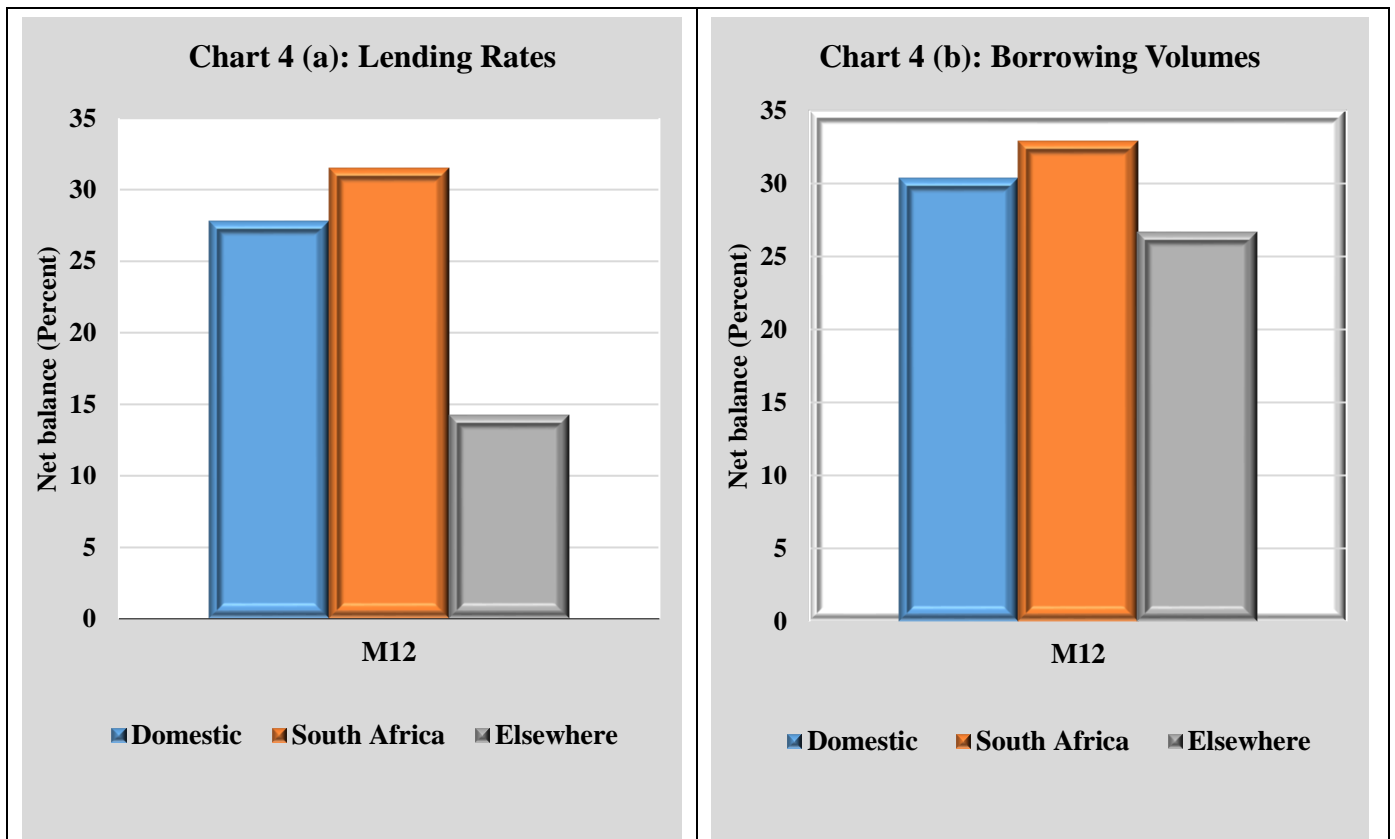


Source: Bank of Botswana

3. Lending Rates and Borrowing Volumes

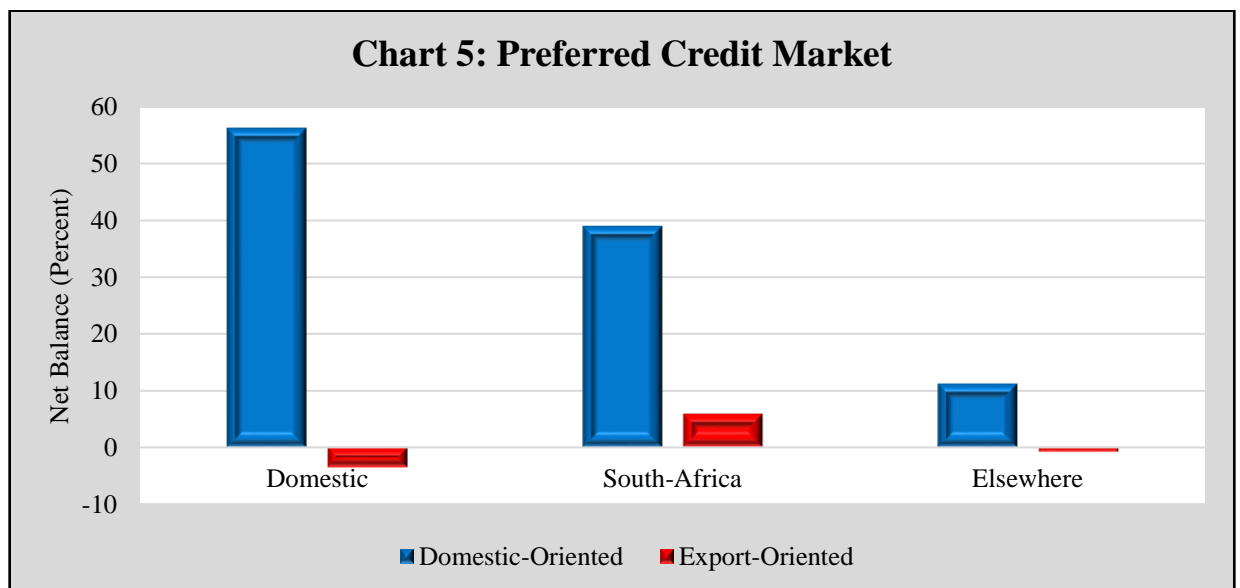
Expected increase in lending rates and borrowing volumes across all markets in the year to December 2024 (M12)

- 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 December 2024, as depicted by the positive net balances (Chart 4). The increase in borrowing volumes is consistent with the expected rise in investment, inventories and goods and services exported, possibly supported by the firms' anticipation that domestic economic performance will improve during the period.



Source: Bank of Botswana

3.2 Firms in the domestic-oriented markets perceived access to credit from commercial banks in Botswana to be relaxed, in the fourth quarter of 2023, hence they prefer to borrow domestically compared to other markets (Chart 5). Meanwhile, firms, in the export-oriented markets prefer to borrow from South Africa compared to borrowing domestically and elsewhere.

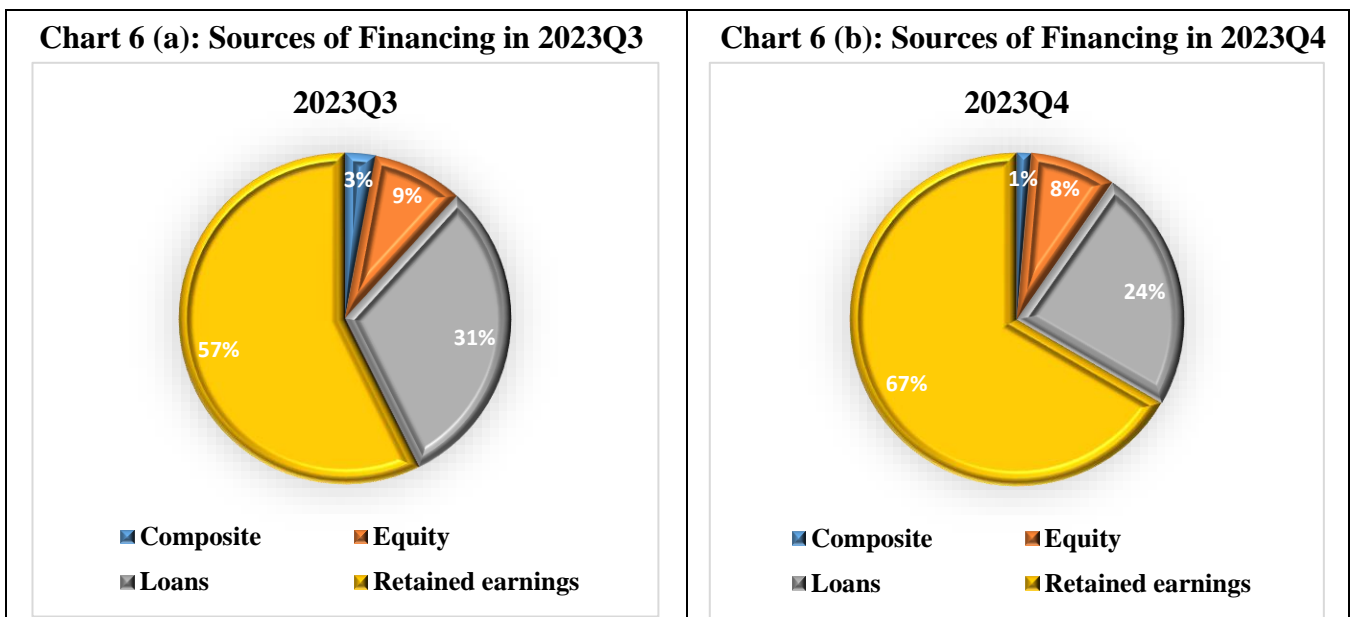


Source: Bank of Botswana

3.3 Approximately 43 percent of the surveyed firms indicated that their choice of credit market was predicated on accessibility, while 33 percent indicated that their borrowing decisions were influenced by availability of appropriate credit facilities. Meanwhile, 12 percent of

the firms cited affordability of suitable loan products, while another 12 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. Meanwhile, firms in the Finance, Professional and Administrative Activities; Manufacturing; Construction and Real Estate and Retail, Accommodation, Transport and Communications and Mining and Quarrying sectors preferred loans as a funding source. On the other hand, only one company from the Finance, Professional and Administrative Activities sector preferred combination of sources of financing.



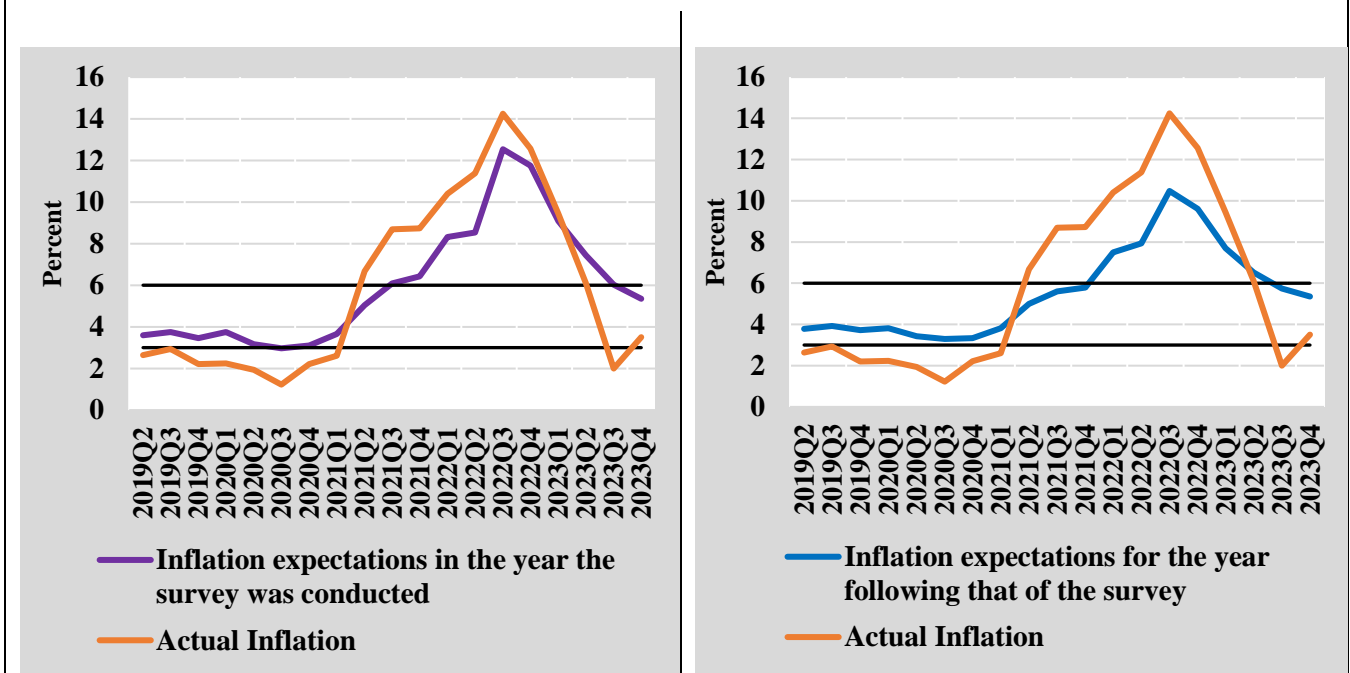
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to increase in the fourth quarter of 2023

4.1 Overall, firms expect cost pressures to remain elevated in the fourth quarter of 2023, 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, firms' expectations about domestic inflation decreased, compared to the previous survey, and have remained within the Bank's 3 – 6 percent objective range (Chart 7), averaging 5.4 percent for 2023 (6 percent in the previous survey) and 5.4 percent for 2024 (5.7 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

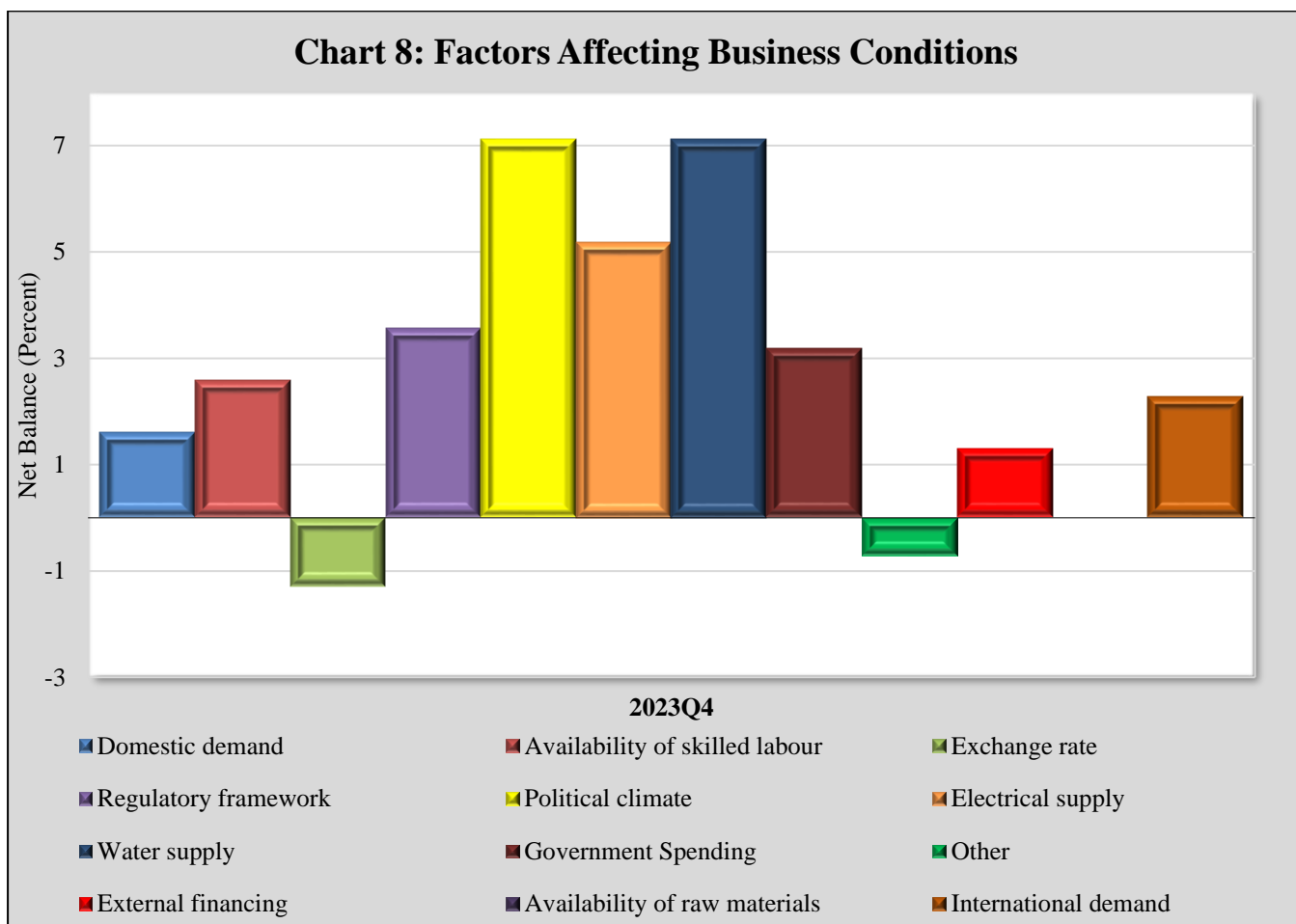


Source: Bank of Botswana

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 Fourth Quarter of 2023

- 5.1 In the fourth quarter of 2023, most firms in the Retail, Accommodation, Transport and Communications; Manufacturing; Construction and Real Estate; and Finance, Professional and Administrative Activities (Chart 8) considered the Pula exchange rate to be unfavorable 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. In addition, firms, in Retail, Accommodation, Transport and Communications; and Mining and Quarrying sectors cited ‘Other’ challenges as a 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.
- 5.2 On the positive side, adequate water and electricity supply, favourable political climate, effective regulatory framework, availability of skilled labour, and domestic and international demand, were considered supportive to doing business in Botswana in the fourth quarter of 2023 (Chart 8).



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were more optimistic about business conditions in the fourth quarter of 2023 compared to the third quarter of 2023. Going forward, business conditions are expected to improve further in the first quarter of 2024, and in the 12-month period to December 2024, supported by the anticipated improvement in profitability, goods or services exported and business investment. These improvements possibly reflect government interventions to support economic activity, including 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 and Israel-Hamas wars, the growth trajectory remains uncertain. Firms expect the economy to expand by 3.7 percent in 2023, while inflation is anticipated to average 5.4 percent in both 2023 and 2024.