



# **THE QUARTELY BUSINESS EXPECTATIONS SURVEY**

**SEPTEMBER | 2025**



## **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 September 2025 BES report presents business expectations about the third quarter of 2025 (M0), the fourth quarter of 2025 (M3); and the 12 months from October 2025 to September 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 51 percent, compared to 57 percent in the June 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 weighted 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, responses to questions relating to the expected GDP growth and inflation are quantitative simple averages.

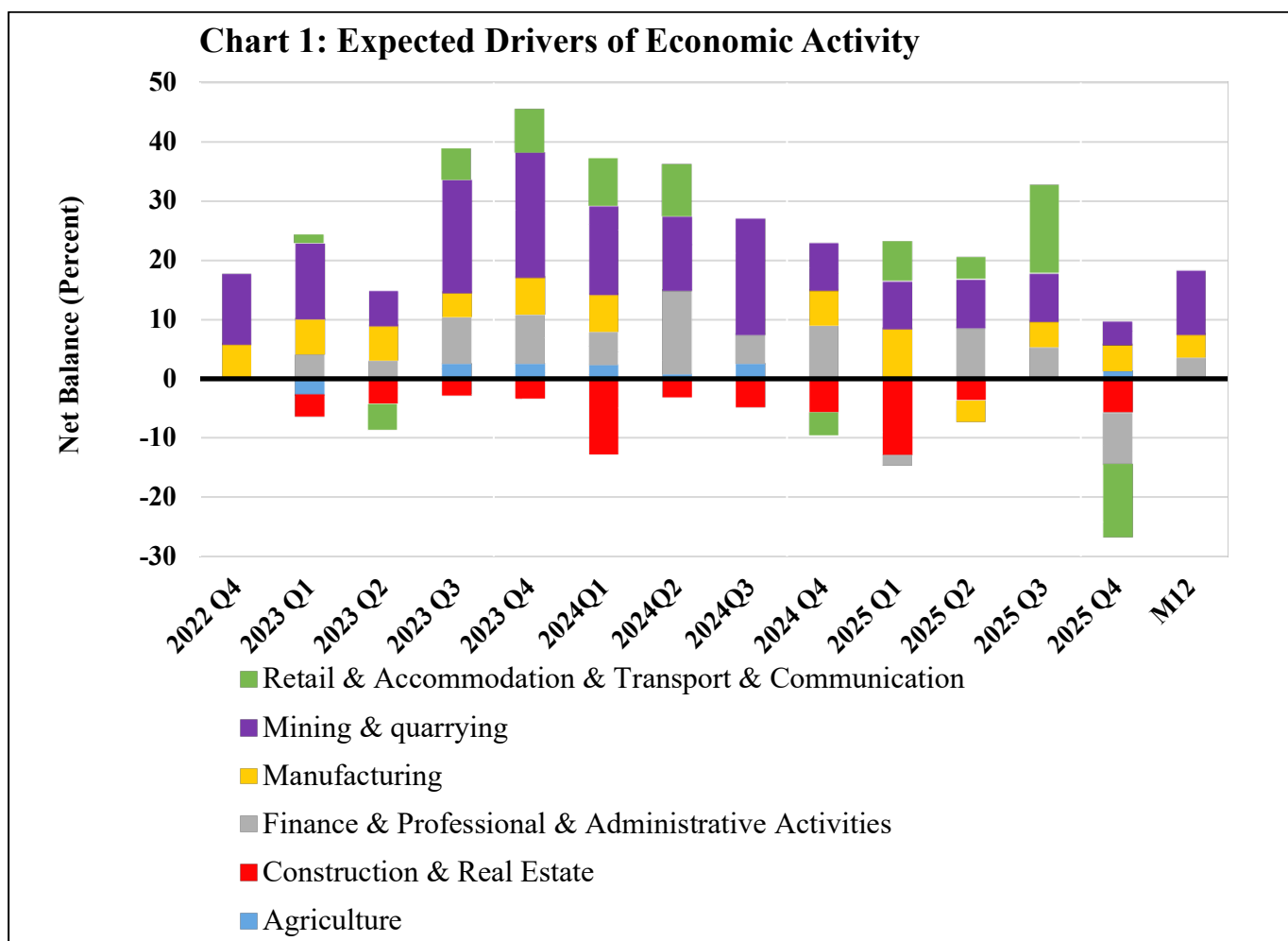
### **(b) Highlights of the Survey Results**

- 1.4 The results of the current BES indicate that firms were more optimistic about business conditions in the third quarter of 2025, compared to the second quarter of 2025. Optimism was particularly notable in the Retail, Accommodation, Transport, and Communications; Mining and Quarrying; Manufacturing; and Finance, Professional and Administrative Activities sectors. Meanwhile, sentiment in the Agriculture and Construction & Real Estate sectors remained broadly neutral. However, firms were less optimistic about business conditions in the 12 months to September 2026. The major challenges affecting business operations cited by firms are constrained government spending, reflecting the Country's weak fiscal position; and unfavourable exchange rate environment, associated with market responses to the recent adjustment of exchange rate parameters. Firms also expect both lending interest rates and borrowing volumes to increase in the year to September 2026. Meanwhile, firms expected overall cost pressures to slightly increase in the third quarter of 2025, mainly due to the anticipated increase in input costs. 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 0.7 percent in 2025, an improvement from the 3 percent contraction recorded in 2024, and higher than the Ministry of Finance's projection of a 0.4 percent contraction for 2025.
- 2.2 Firms in the Retail, Accommodation, Transport and Communications; Manufacturing; Mining and Quarrying; and Finance, Professional and Administrative Activities sectors were optimistic that business conditions would be supportive of economic activity in the third quarter of 2025, while those in the Agriculture and Construction and Real Estate sectors remained neutral (Chart 1).
- 2.3 Looking ahead to the fourth quarter of 2025, firms in Manufacturing, Agriculture and Mining and Quarrying expressed optimism, anticipating favourable business conditions that are expected to support economic activity (Chart 1). Nonetheless, firms in Finance, Professional and Administrative Activities, Construction and Real Estate, as well as Retail, Accommodation, Transport, and Communications sectors were pessimistic about business conditions in the same period.

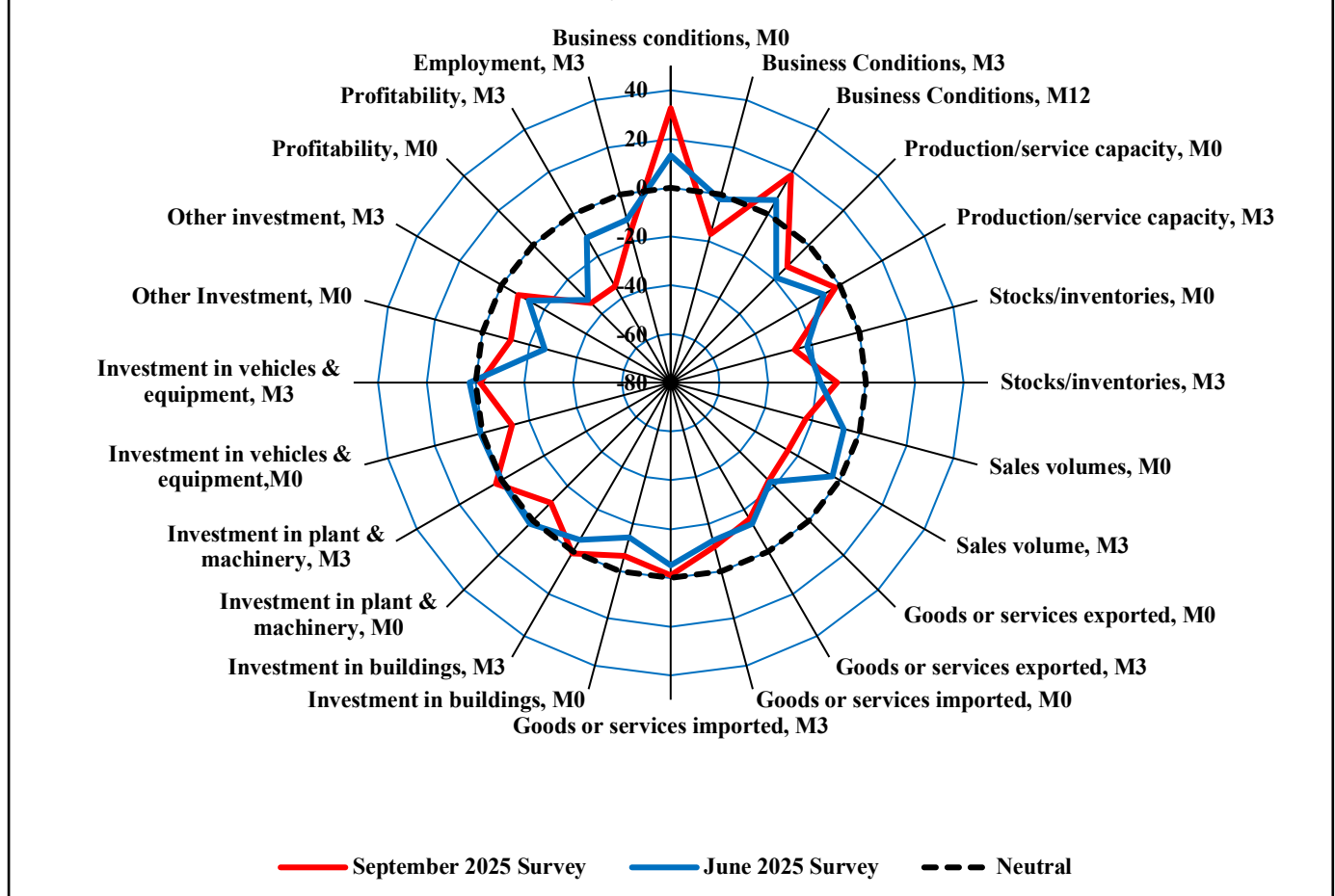


Source: Bank of Botswana

Notes:

- The chart shows net balances on each sector's economic performance expectations for the third and fourth quarters of 2025, and the 12-month period to September 2026 (M12).
  - 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 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 Mining and Quarrying; Manufacturing and Finance, Professional, and Administrative Activities sectors were optimistic about business conditions in the 12-month period ahead. In contrast, Retail, Accommodation, Transport and Communications, Construction and Real Estate and Agriculture businesses held a neutral view regarding the outlook. The neutral sentiment in the Construction and Real Estate sectors likely reflects uncertainty regarding the timing and scale of government development projects, given the constrained fiscal environment.
- 2.5 Overall, firms expected business conditions to remain positive and supportive of economic activity in the third quarter of 2025 (Chart 2), but were pessimistic with respect to the fourth quarter of 2025, and held a less optimistic view for the 12-month period to September 2026. The cautious outlook is consistent with the weaker fiscal position, characterised by lower government revenue, constrained cash flow and, therefore, restrained pace of spending, mainly due to a drop in diamond export earnings.

**Chart 2: Summary of Economic Conditions**



Source: Bank of Botswana

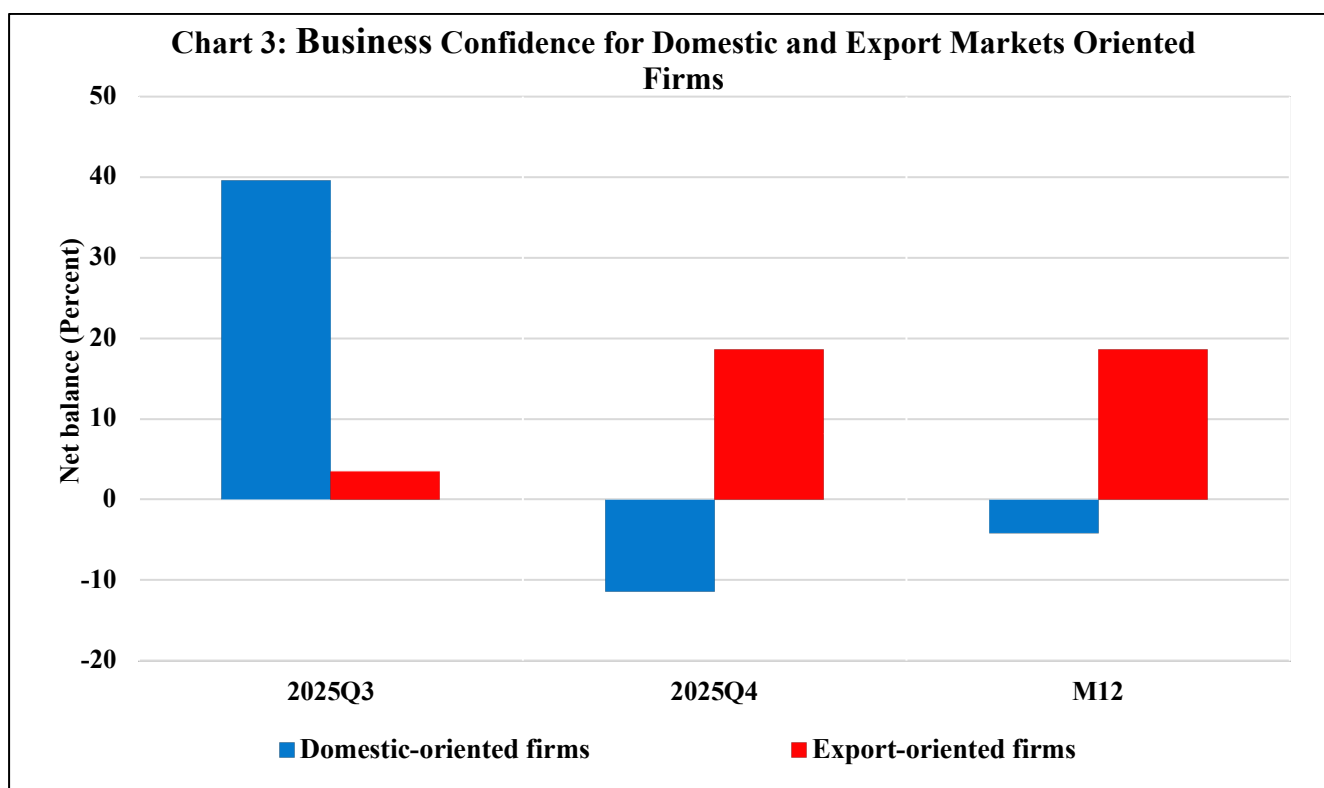
Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the June 2025 Survey, while the red line represents the results of the September 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 third quarter of 2025 (M0), the fourth quarter of 2025 (M3), and the 12 months to September 2026 (M12). The blue line denotes perceptions about business conditions as envisaged in the previous survey.

2.6 Chart 3 shows that business confidence among domestic market-oriented firms was positive in the third quarter of 2025. The confidence was mainly driven by firms in the Mining and Quarrying, Finance, Professional and Administrative Activities; Manufacturing and Retail, Accommodation, Transport and Communication sectors. However, expectations among domestic market-oriented firms deteriorated for the fourth quarter, with confidence turning pessimistic, and remains subdued for the 12-month period to September 2026, although the degree of pessimism was slightly lower over the longer horizon. The more cautious sentiment reflects concerns over trade barriers, economic uncertainty, and supply chain disruptions, which may hinder the ease of doing business, alongside the slow pace of

government spending, particularly on development projects.

- 2.7 By contrast, export-oriented firms reported positive business confidence in the third quarter of 2025, with expectations that conditions will improve further in the fourth quarter and over the 12 months to September 2026. This outlook is consistent with the anticipated positive impact of government efforts to support economic recovery and the business environment<sup>1</sup>.



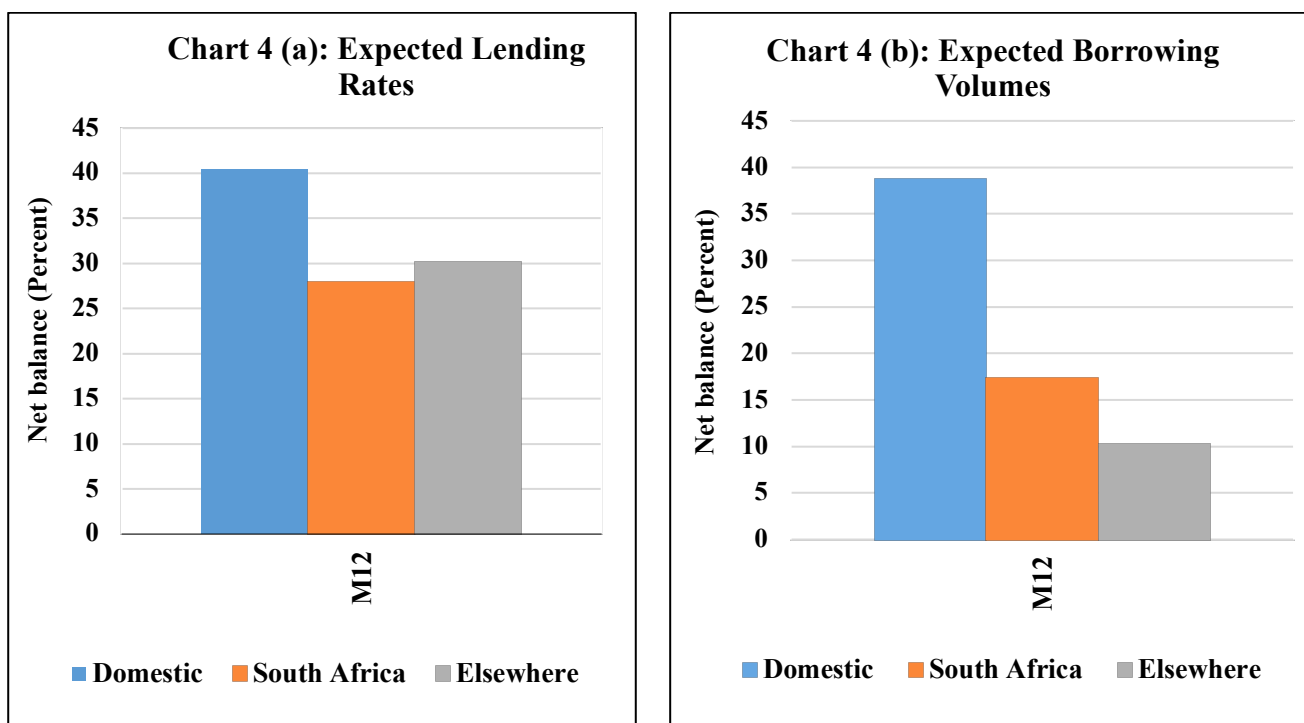
Source: Bank of Botswana

### 3. Lending Interest Rates and Borrowing Volumes

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

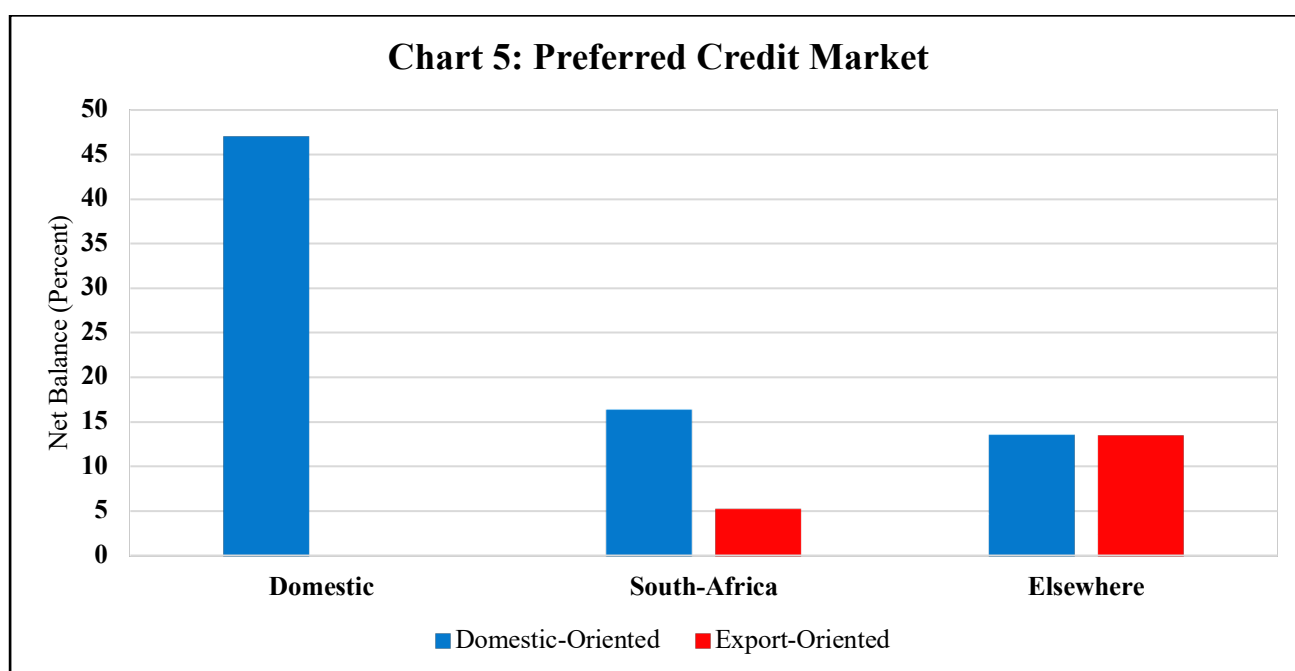
- 3.1 Firms expect lending interest rates to increase across all markets (domestic, South Africa and elsewhere) in the year to September 2026, as reflected by the positive net balances (Chart 4a). This expectation is most likely informed by the recent increase in the prime lending rates by domestic commercial banks. Notwithstanding the anticipated rise in lending interest rates, borrowing volumes are expected to increase across all markets over the same period (Chart 4b), with most firms preferring to borrow domestically.

<sup>1</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

3.2 Most domestic market-oriented firms preferred borrowing locally (Botswana) compared to South Africa and elsewhere in the third quarter of 2025 (Chart 5). However, export market-oriented firms preferred borrowing from South Africa and elsewhere during the same period.

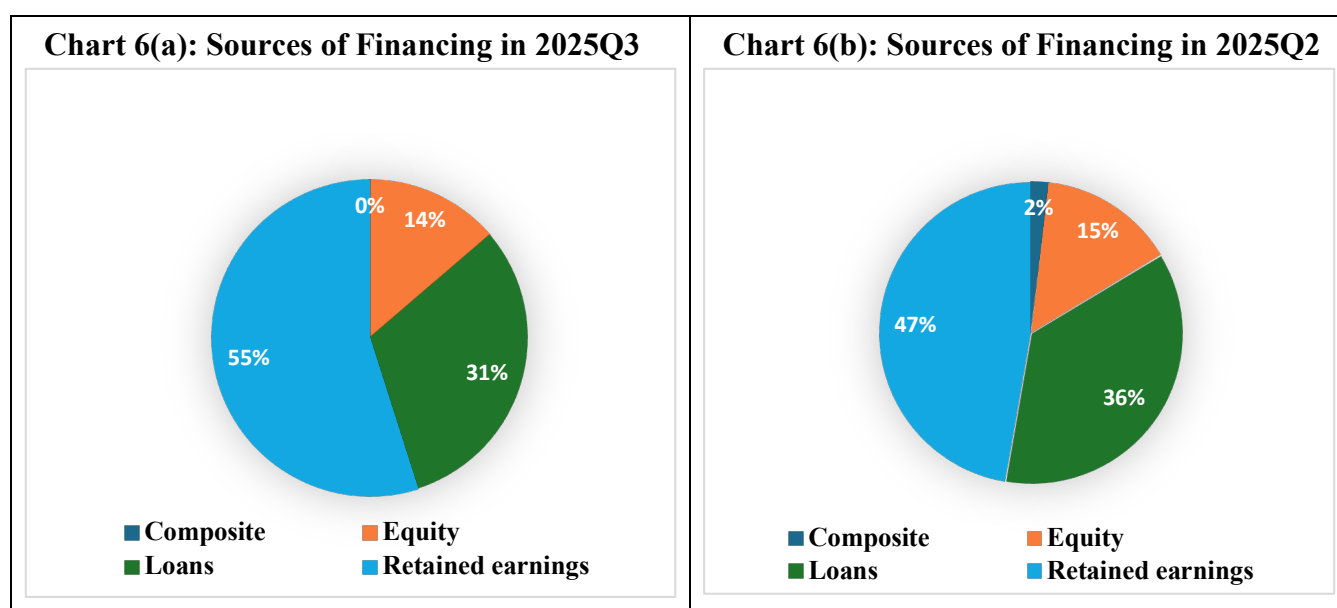


Source: Bank of Botswana

3.3 Approximately 48 percent of the firms surveyed indicated that their choice of credit market

was mainly influenced by the accessibility of appropriate credit facilities, 26 percent cited affordability of credit, while 19 percent were influenced by the availability of suitable loans. Meanwhile, 7 percent of firms considered a combination of availability and accessibility as key factors 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 6b. However, in the third quarter of 2025, the proportion of firms that preferred equity financing slightly decreased to 14 percent from 15 percent in the previous survey. Meanwhile, no firm preferred a composite source of financing compared to 2 percent, previously. The preference to use retained earnings as a source of financing was prevalent across most sectors. However, some firms in sectors such as Finance, Professional and Administrative Activities and Construction and Real Estate 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.



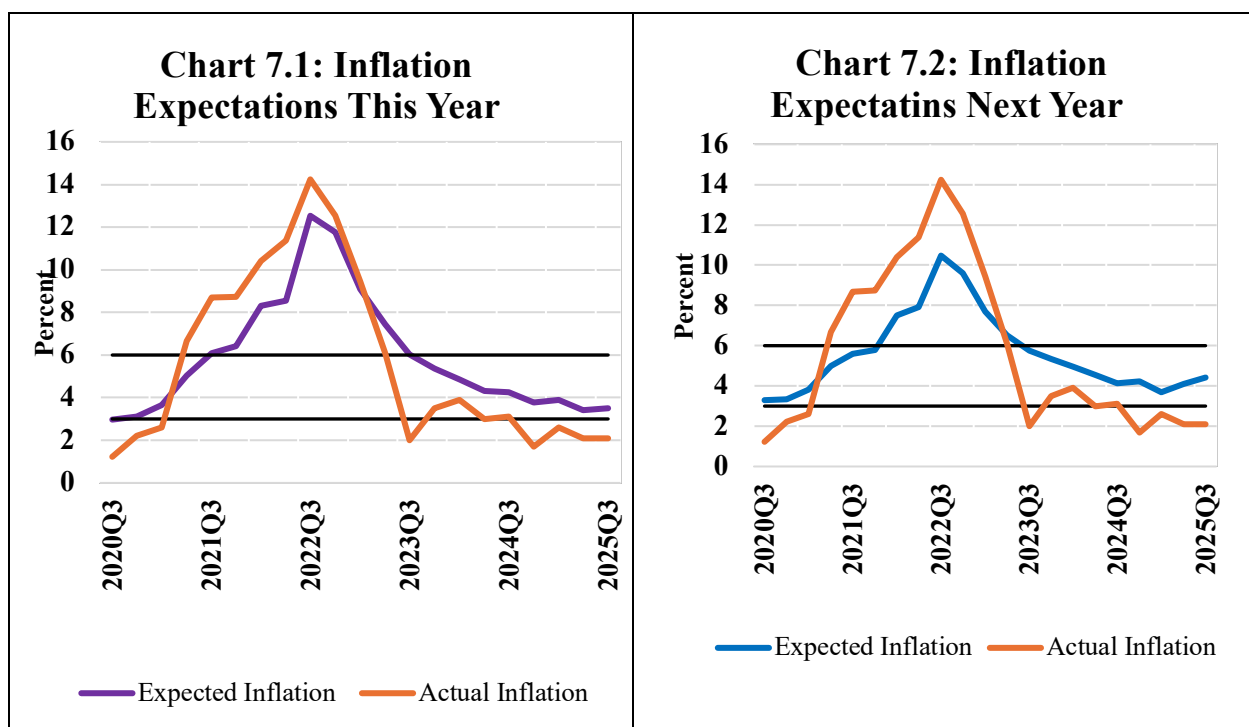
Source: Bank of Botswana

## 4. Price Developments and Inflation

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

- 4.1 Overall, firms expected cost pressures to increase slightly in the third quarter of 2025 compared to the second quarter, mainly due to the anticipated increase in input costs, particularly for materials, rent, utilities and transport. As a result, firms expect domestic inflation to average 3.5 percent in 2025, closely aligned with the 3.4 percent in the previous survey, before rising to an average of 4.4 percent in 2026 (Charts 7a and 7b). Nonetheless, firms expect inflation to remain within the 3 – 6 percent medium-term objective range in 2025 and 2026, indicating that inflation expectations remain well anchored.





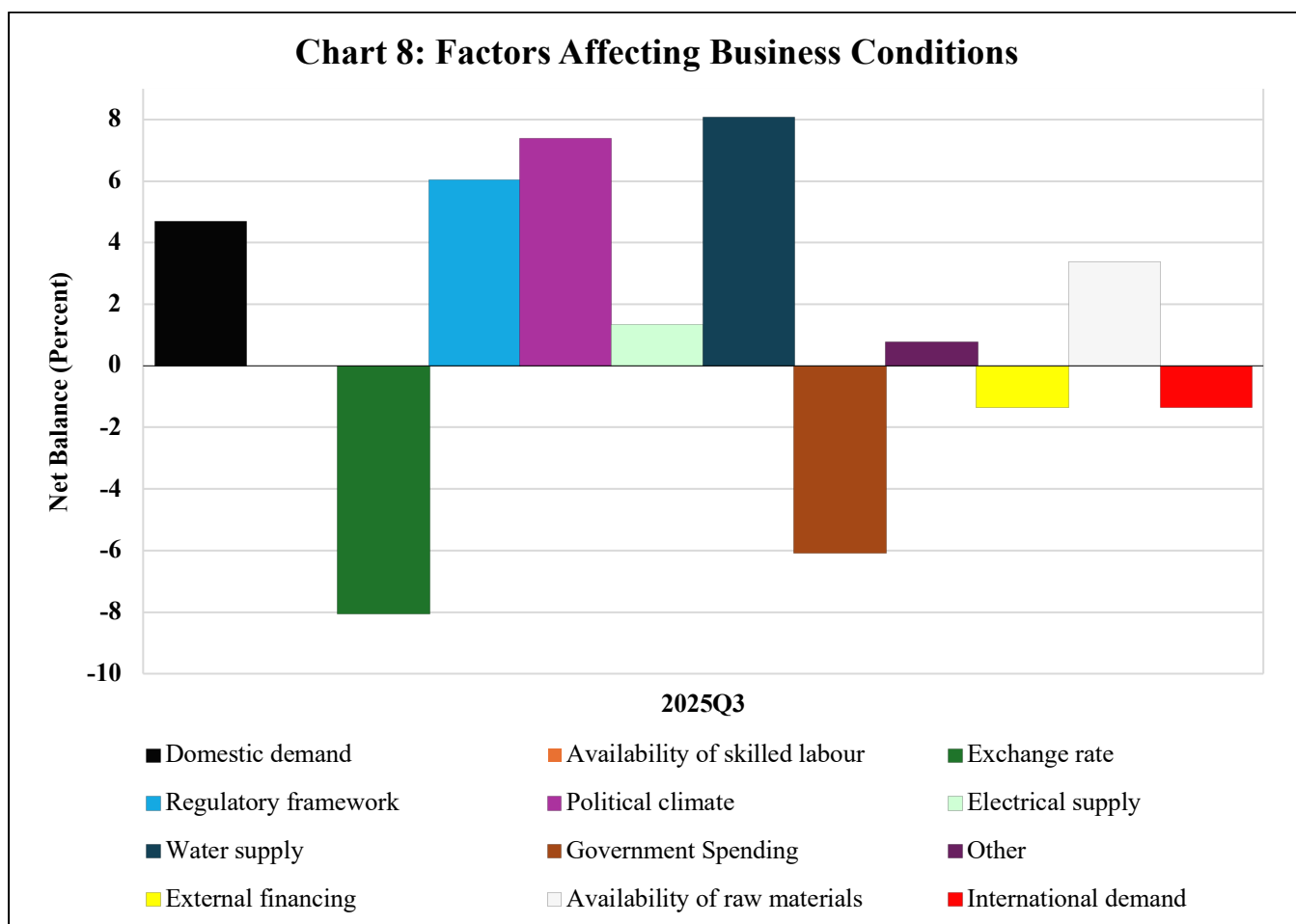
Source: Bank of Botswana

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 third Quarter of 2025

- 5.1 The firms cited a slower pace of government spending and an unfavourable exchange rate<sup>2</sup> environment as the major factors adversely affecting business operations in the third 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 and limited 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>2</sup> Importing firms are generally of the view that the depreciation of the Pula against the South African rand in the third quarter of 2025 made imports relatively more expensive.



Source: Bank of Botswana

## 6. Conclusion

- 6.1 Overall, firms were more optimistic about business conditions in the third quarter of 2025, than in the second quarter, reflecting expectations of improved operating conditions in the near term. However, sentiment moderated for the fourth quarter of 2025 and was less optimistic for the 12 months to September 2026, with firms citing the weak fiscal position and uncertainty regarding government spending as key drivers of this cautious outlook. As a result, firms anticipate the domestic economy to grow modestly by 0.7 percent in 2025, down from 0.9 percent anticipated in the previous survey. Inflation is expected to average 3.5 percent in 2025 and 4.4 percent in 2026, indicating that inflation expectations remain well anchored within the 3 – 6 percent range.