

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



JUNE 2022

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 the domestic business community's perceptions about 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; outlook for economic growth and inflation; 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 twelve months.
- 1.2 The June 2022 BES Report presents business expectations about the current period (Q2:2022), the third quarter of 2022 (Q3:2022); and the twelve-month period (M12) from July 2022-June 2023 (Q3:2022-Q2:2023). Thus, the survey was conducted during the period in which some of the COVID-19 regulations and protocols were still in place. However, the survey horizon covers the period when the restrictions were less stringent compared to 2020 and part of 2021, with international travel allowed with proof of full vaccination or a negative COVID-19 Polymerase Chain Reaction (PCR) test performed within 72 hours prior to travel, and later on, a vaccination certificate was sufficient for international travel into Botswana.
- 1.3 The BES samples 100 businesses from thirteen 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, for example, Construction and Real Estate; Finance, Insurance and Pension Funding; Professional, Scientific and Technical Activities; and Administrative and Support Services were merged for ease of analysis since they are interconnected. The response rate for the current survey is 56 percent compared to 55 percent in the previous survey.
- 1.4 The survey questions are mainly focused on the anticipated direction of change in selected indicators, that is whether the indicator is expected to improve, worsen or remain constant. 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 expected GDP growth and inflation are quantitative and consolidated into simple averages.

Highlights of the Survey Results

- 1.5 The results of the current BES suggest that firms are pessimistic about business conditions compared to the previous survey. The pessimism is reflected by firms' expectations of weaker domestic economic performance, hence lower inventories, reduced investment in buildings, plant and machinery, as well as "other" investments, compared to the March 2022 survey. Furthermore, firms anticipate tight access to credit across all markets. They also expect cost pressures to remain high in the third quarter of 2022, mainly reflecting upward adjustments in fuel prices due to supply constraints

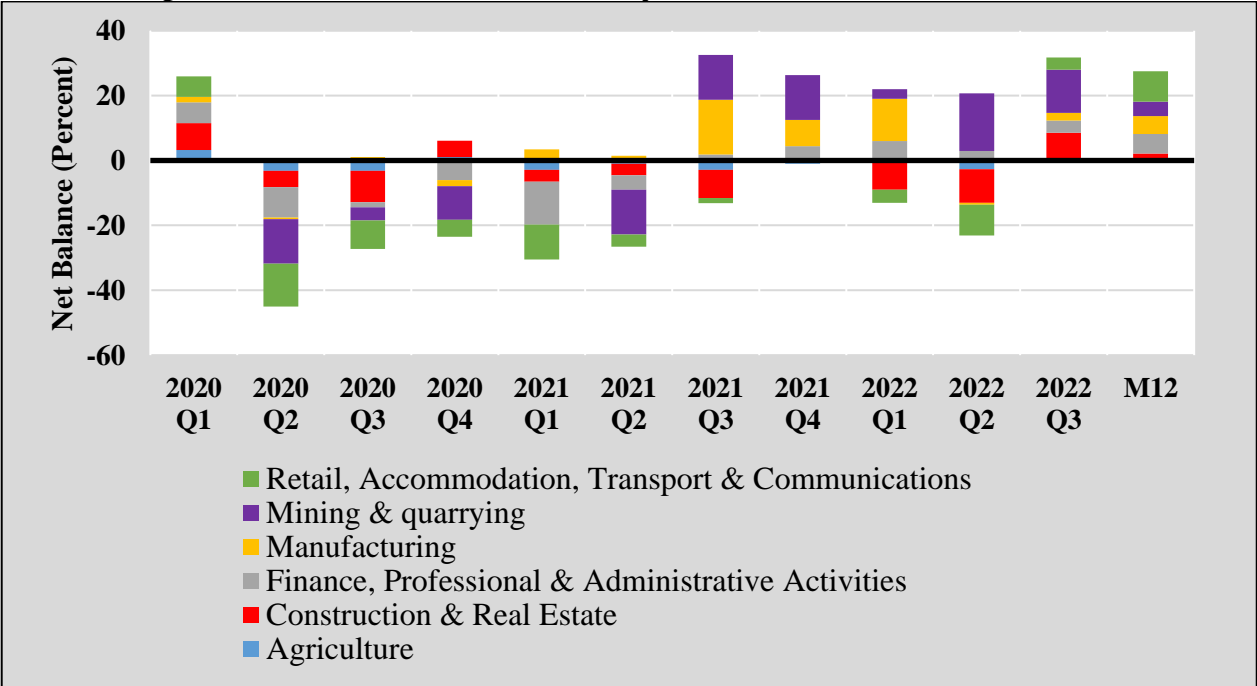
arising from the Ukraine-Russia war. Overall, the decline in business confidence, is expected to have a negative impact on domestic economic performance. Meanwhile, firms expect inflation to remain above the Bank’s 3 - 6 percent objective range in 2022.

2. Economic Performance and Business Conditions

Output is expected to increase in 2022

2.1 Firms expect overall output to expand by 3.8 percent in 2022, slightly below the projections of 4.2 percent by the Ministry of Finance and 4.3 percent by the International Monetary Fund (IMF) for the same period. Firms further indicated that they anticipate that GDP will increase by 3.1 percent and 3.5 percent in the second and third quarters of 2022, respectively.

Chart 1: Expected Drivers of Economic Activity



Source: Bank of Botswana

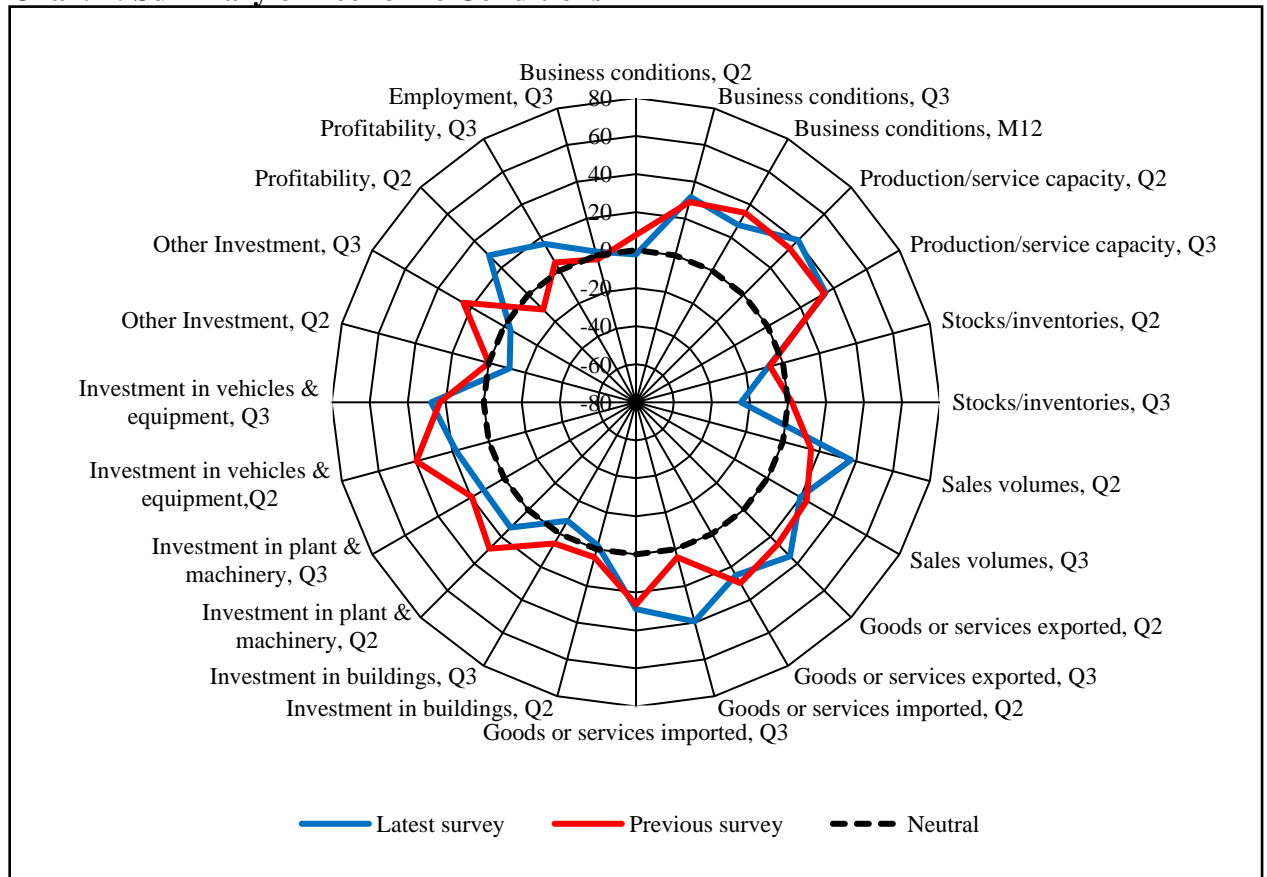
Note: The chart shows net balances on each sector’s economic performance expectations for the first quarter of 2020 to M12 (the period from July 2022 to June 2023). The net balances are weighted by each sector’s relative share in GDP. For example, for a sector with (P+N) members in the sample, where ‘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].

2.2 Notably, firms in the Construction and Real Estate; Agriculture; Manufacturing; and Retail, Accommodation, Transport and Communications sectors were pessimistic about economic growth prospects in the second quarter of 2022, while Mining and Quarrying was substantially optimistic, followed by the Finance, Professional and Administrative Activities (Chart 1). Positive sentiments in the former sector mainly reflect the expected continued favourable conditions in the global diamond market. Meanwhile, all sectors except Agriculture are optimistic about the third quarter of 2022 and the 12-month period to June 2023, possibly supported by the prevailing accommodative monetary conditions and implementation of the Economic Recovery and Transformation Plan (ERTP), among others. The pessimistic perception for the Agricultural sector is contrary to expectations that it should benefit from potential growth in horticulture due to the ongoing ban on

some fruits and vegetables and financial support offered by government in the form of subsidies such as those on inputs and implements of production through the Integrated Support Programme for Arable Agriculture Development (ISPAAD) Horticulture Impact Accelerator Subsidy.

2.3 Overall, firms expect business conditions to deteriorate in the second quarter of 2022 (Chart 2). The subdued confidence is driven by the anticipated deterioration in inventories, subdued expenditures on ‘other’ investments and plant and machinery, mainly due to the increase in cost pressures arising from the geopolitical crisis in Eastern Europe and the uncertain COVID-19 profile. However, business conditions are expected to improve in the third quarter of 2022 and the 12-month period to June 2023.

Chart 2: Summary of Economic Conditions



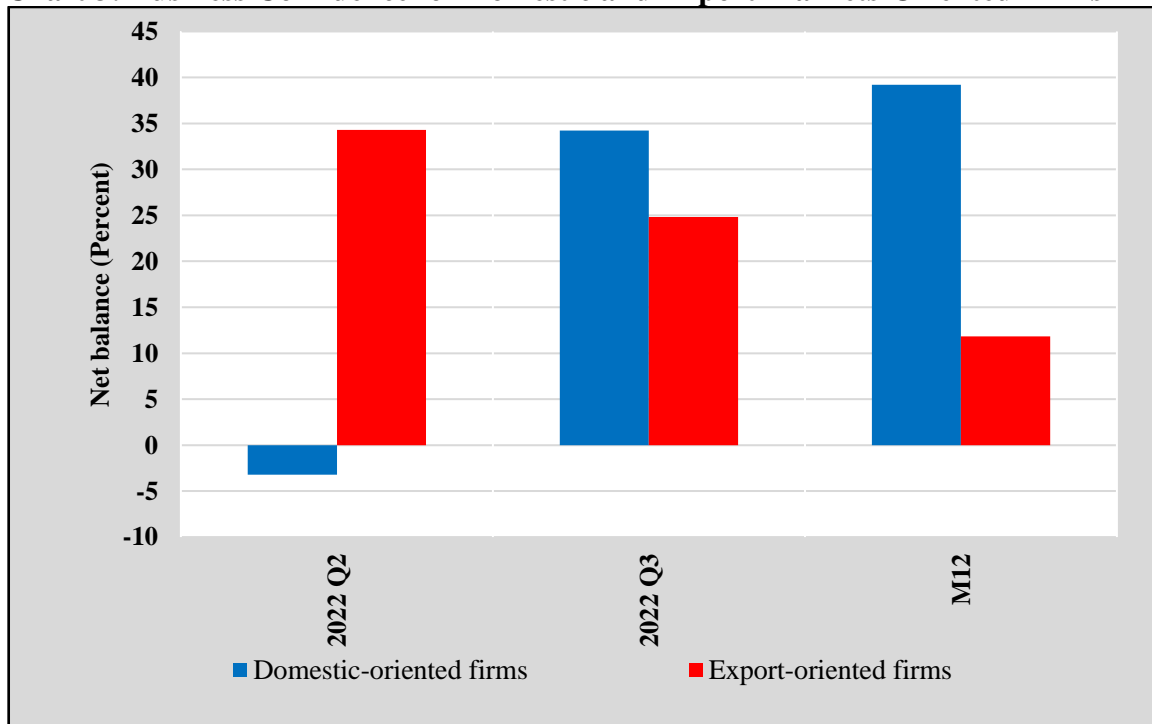
Source: Bank of Botswana

Notes: The chart summarises firms’ expectations about business conditions. The blue line represents the results of the June 2022 Survey, while the red line represents the results of the March 2022 Survey. The black dashed line is the static position, representing unchanged expectations. 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.

The results of the current survey, along the blue line, are interpreted as follows: Q2 denotes perceptions about business conditions in the second quarter of 2022, Q3 represents expectations about business conditions for the third quarter of 2022, while M12 depicts the perceived business conditions for the twelve-month period from July 2022 to June 2023. 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 improves markedly in the third quarter of 2022, compared to the second quarter. The level of optimism improves further in the twelve-month period to June 2023 (M12), consistent with the anticipated continued domestic economic recovery and accommodative monetary conditions, going forward. Confidence in the domestic market-oriented firms is mainly driven by firms in the Mining and Quarrying; Finance and Professional and Administrative Activities; and Retail and Accommodation and Transport and Communications sectors.
- 2.5 Meanwhile, export oriented firms are optimistic about business conditions in the second quarter of 2022. However, their optimism declines steadily in the third quarter of 2022 and in the 12-month period to June 2023, possibly due to the expected worsening economic conditions and rising price pressures arising from the ongoing Russia-Ukraine war.

Chart 3: Business Confidence for Domestic and Export Markets-Oriented Firms



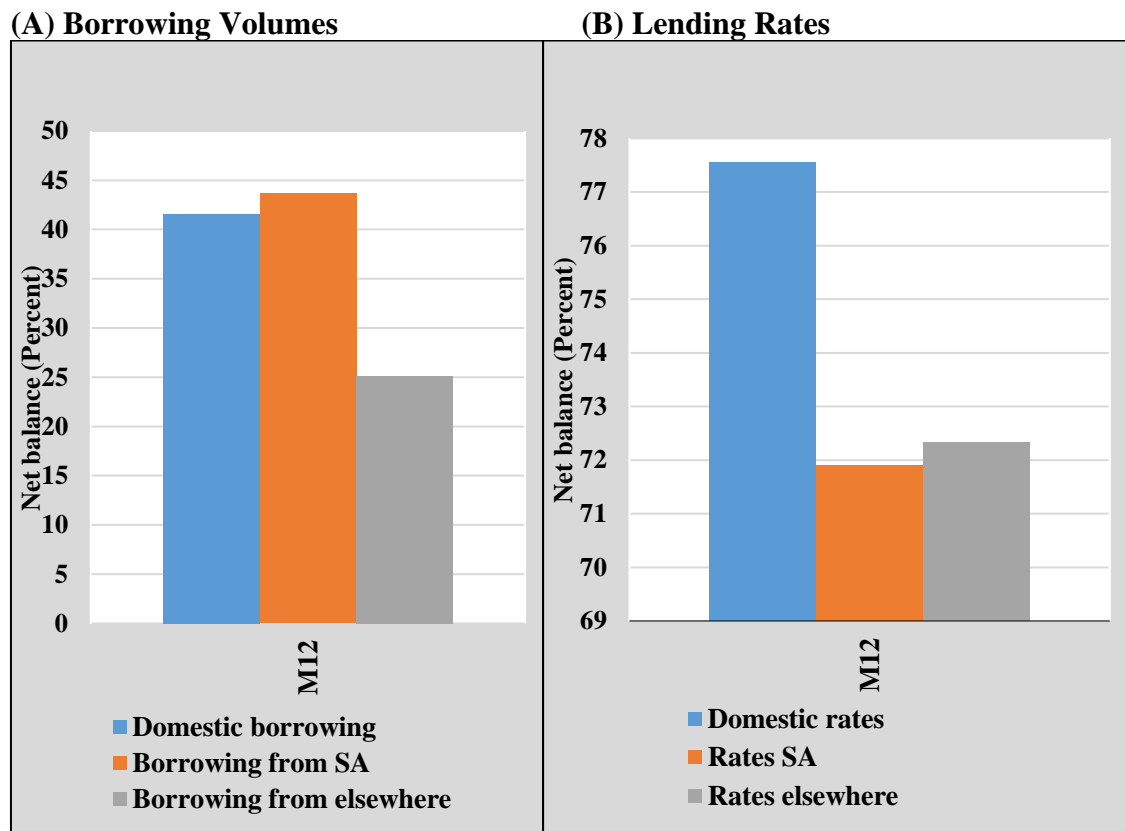
Source: Bank of Botswana

3. Expected Lending Rates and Volume of Borrowing

Lending rates and borrowing volumes across all markets are expected to increase in the year to June 2023 (M12)

- 3.1 Firms expect borrowing costs to increase in all markets, particularly in the domestic market, in the year to June 2023 (Chart 4). Meanwhile, firms expect borrowing volumes, to increase across all markets in the 12-month period to June 2023 (Chart 4).

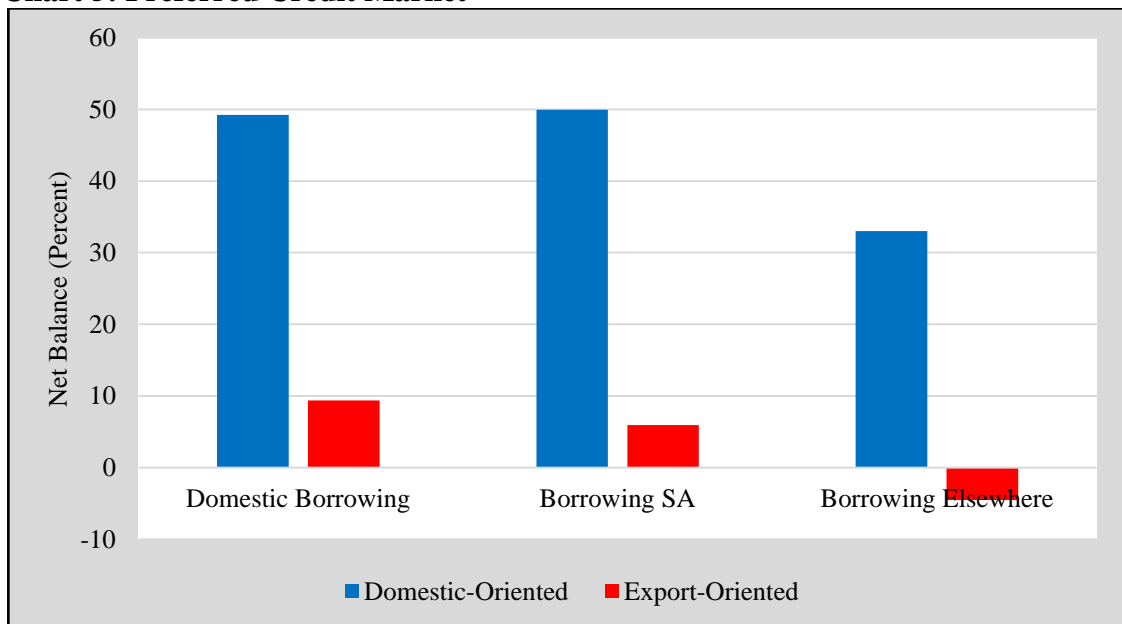
Chart 4: Borrowing Volumes and Lending Rates



Source: Bank of Botswana

3.2 Both the domestic and export market oriented firms mainly prefer to borrow from the domestic market and the South African markets (Chart 5). However, domestic market oriented firms also expect an increase in borrowing from other markets.

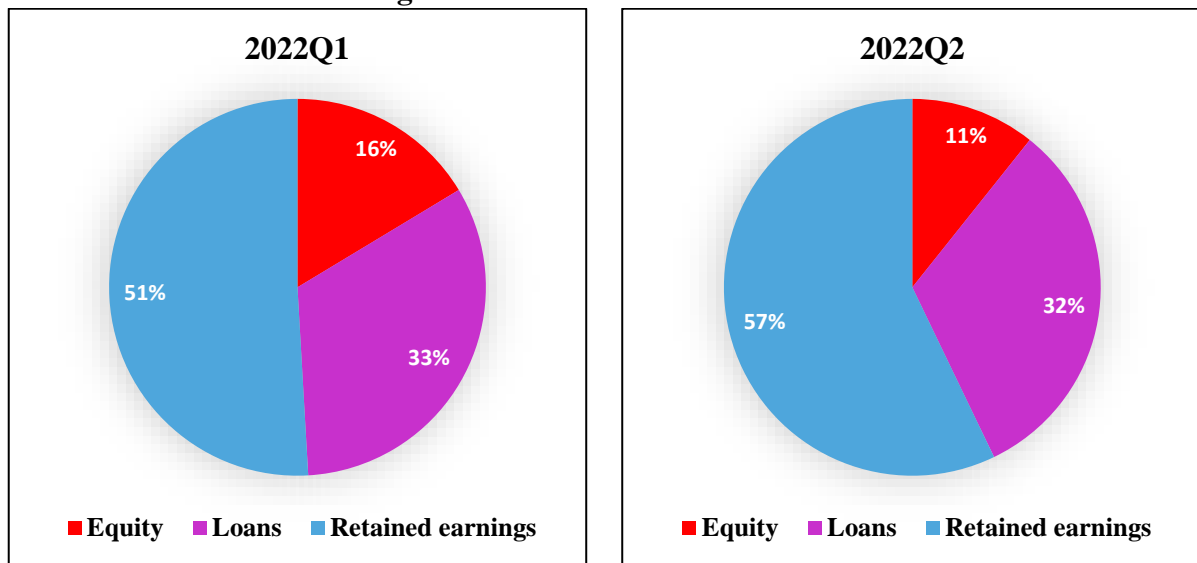
Chart 5: Preferred Credit Market



Source: Bank of Botswana

3.3 A slight majority (approximately 54 percent) of the surveyed firms indicated that their choice of where to borrow was predicated on accessibility, while 29 percent cited availability of required loan products. Meanwhile, 17 percent of the firms indicated that their borrowing decisions were influenced by affordability of suitable credit facilities. As in the previous survey, most firms prefer to finance their business operations mainly from retained earnings, followed by loans, and equity (Chart 6). Retained earnings as a source of financing was prevalent among the Manufacturing; Retail and Accommodation and Transport and Communications; and Mining and Quarrying sectors. Meanwhile, most of the firms in the Finance and Professional and Administrative sector preferred loans as a funding source and have a more or less equal preference to borrow from all markets.

Chart 6: Sources of Financing



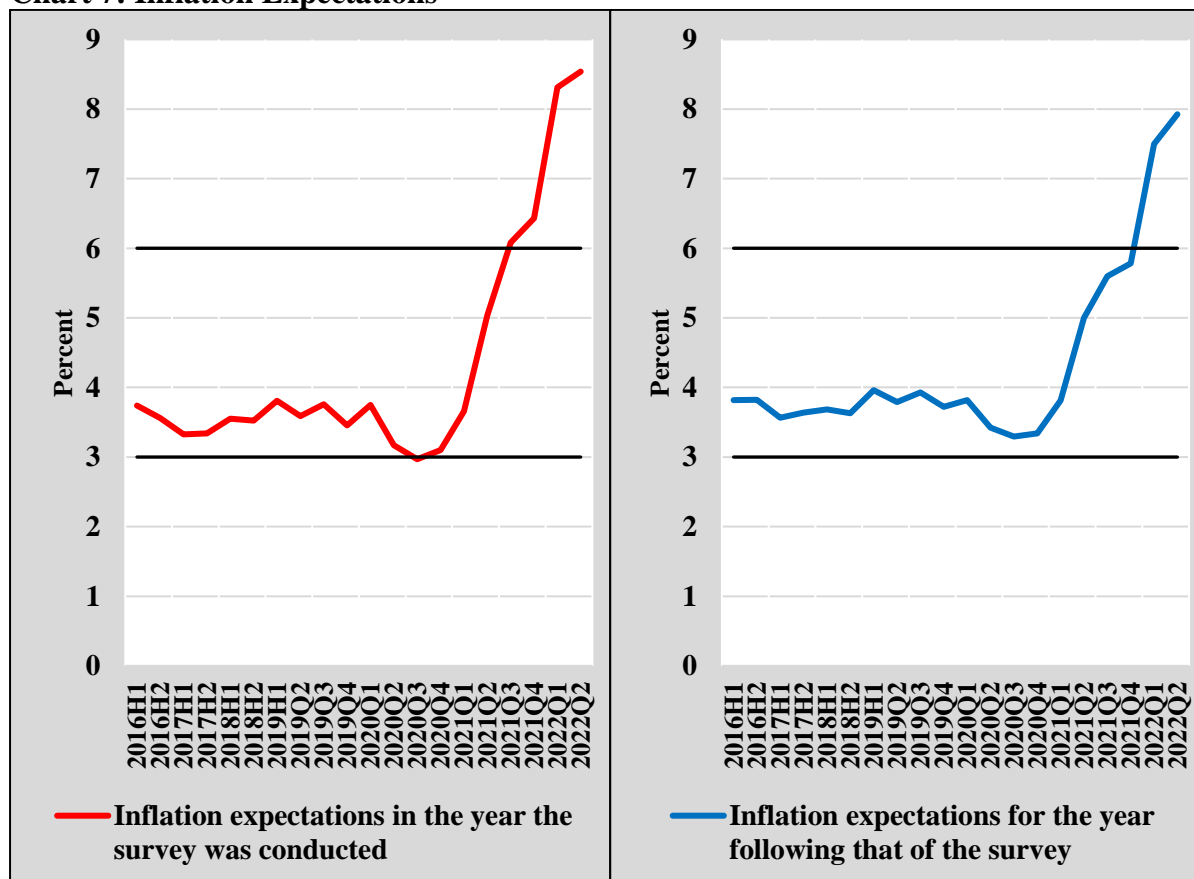
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to increase in the second quarter of 2022

4.1 Firms expected cost pressures to continue rising in the second quarter of 2022, mainly attributable to the increase in input costs, especially fuel price increases. Firms' expectations about domestic inflation were higher than the 3 – 6 percent objective range in 2022 and 2023 (Chart 7). Inflation expectations ranged between 2.3 percent and 20 percent (averaging 8.5 percent, up from 8.3 percent in the last survey) for 2022 and between 2.5 percent and 15 percent (averaging 7.9 percent, up from 7.5 percent in the previous survey) for 2023.

Chart 7: Inflation Expectations



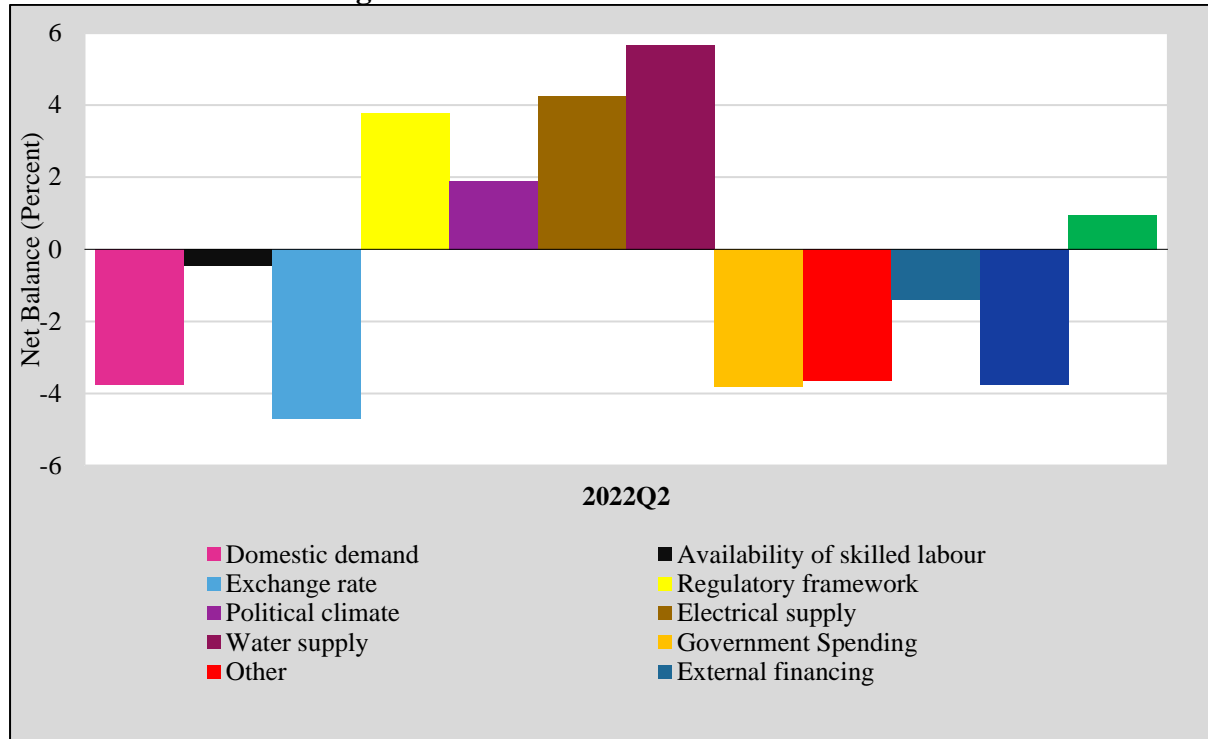
Source: Bank of Botswana

Notes: The chart shows the average of inflation expectations across different surveys. Previously, the surveys were conducted biannually, but effective 2019 Q2, surveys are conducted on a quarterly basis. The bi-annual survey horizons comprised the half-year in which the survey was conducted/current period (H1) and the next half-year (H2). In the case of inflation expectations for the year following that of the survey, the quarterly inflation expectations made in 2021 are about annual inflation in 2022, while those made in 2022 are about annual inflation in 2023.

5. Factors Affecting Business Conditions in the Second Quarter of 2022

- 5.1 There was a view, by companies in the Construction, Manufacturing and Mining and Quarrying sectors, that the Rand/Pula exchange rate was unfavourable and therefore costly to doing business in instances where the Pula weakened against the South African Rand. The view was predicated on the fact that these companies source most of their raw materials from South Africa (Chart 8). The other most commonly cited impediments to operations were shortage of raw materials (manufacturing), weak domestic demand and slow growth in government spending.
- 5.2 Adequate water and electricity supply, favourable political climate, international demand and effective regulatory framework were viewed as supportive factors to doing business in Botswana in the second quarter of 2022 (Chart 8).

Chart 8: Factors Affecting Business Conditions



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were pessimistic about business conditions in the second quarter of 2022 compared to the previous quarter. However, they anticipate improvement in business conditions in the third quarter of 2022 and the twelve-month period to June 2023. They expect the economy to grow by 3.8 percent in 2022, even as they have elevated inflationary expectations.