



# THE QUARTELY BUSINESS EXPECTATIONS SURVEY

JUNE | 2024



## 1. **Introduction**

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

- 1.1 The quarterly Business Expectations Survey (BES), conducted by the Bank of Botswana, collects information on the perceptions of the domestic business community regarding the prevailing state of the economy and expectations during the survey period. 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 respond to questions on various topics, including the prevailing business climate, economic growth and inflation outlook, and business performance in the survey horizon.
- 1.2 The June 2024 BES report presents business expectations about the second quarter of 2024 (M0), the third quarter of 2024 (M3); and the 12-month period from July 2024 to June 2025 (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; Retail, Accommodation, Manufacturing, and Water and Electricity; as well as Transport, Information and Communications Technology sectors are merged for ease of analysis. The response rate in the current survey is 66 percent compared to 65 percent in the March 2024 survey.
- 1.4 The survey questions mainly focus 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 from firms in the same sector. Thus, by design, the survey responses are predominantly qualitative and 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 are consolidated into simple averages.

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

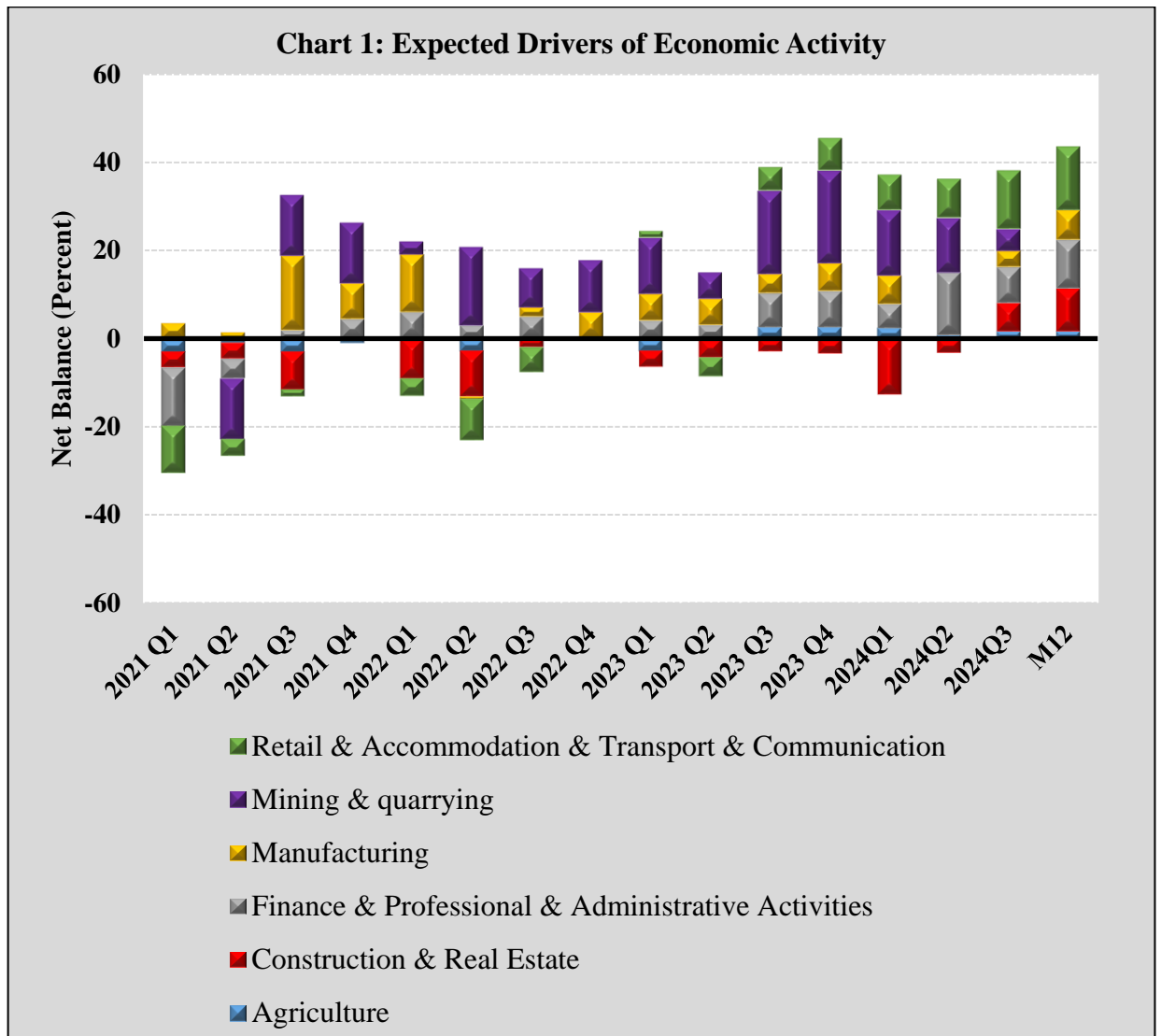
2. The results of the current BES indicate that firms are more optimistic about business conditions in the second quarter of 2024 compared to the first quarter of 2024. Businesses also expect inflation to remain within the 3 – 6 percent objective range in 2024 and 2025. Additionally, firms anticipate improvements in output of sectors, such as Finance, Professional and Administrative Activities; and Retail, Accommodation, Transport and Communications, with an expected positive impact on aggregate domestic economic performance in the second quarter of 2024. Furthermore, firms anticipate lending interest rates to decrease in South Africa and elsewhere, while remaining constant domestically, in line with forecasts for monetary policy easing globally. Moreover, firms expect cost pressures to decrease in the second quarter of 2024.

## **Anticipated moderate output growth in 2024**

- 2.1 Firms expect overall output to expand by 3.4 percent in 2024, which is significantly higher than the 1 percent growth forecast by the International Monetary Fund for the same period and reasonable extrapolation from economic performance in the first half of the year. On a quarterly basis, firms expect GDP to increase by 3.1 percent and 3.4 percent in the second and third quarters of 2024, respectively.
- 2.2 Notably, firms in the Mining and Quarrying; Agriculture; Retail, Accommodation, Transport and Communications; and Finance, Professional and Administrative Activities sectors were optimistic about economic growth prospects in the second quarter of 2024. However, firms in the Construction and Real Estate sector were pessimistic (Chart 1). Looking ahead, all sectors were optimistic about the third quarter of 2024 and the year to June 2025, except the Mining and Quarrying sector, which remained neutral. This optimism may be attributed to government interventions aimed at supporting economic activity, including reforms<sup>1</sup> to further improve the business environment. However, the growth trajectory remains uncertain due to downside risks to global economic activity, including weaker global demand and the adverse impact of the Russia-Ukraine and Israel-Hamas wars.

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<sup>1</sup> These include continuation of the Economic Reform and Transformation Plan, infrastructure projects and initiatives announced in the 2024 Budget Speech.

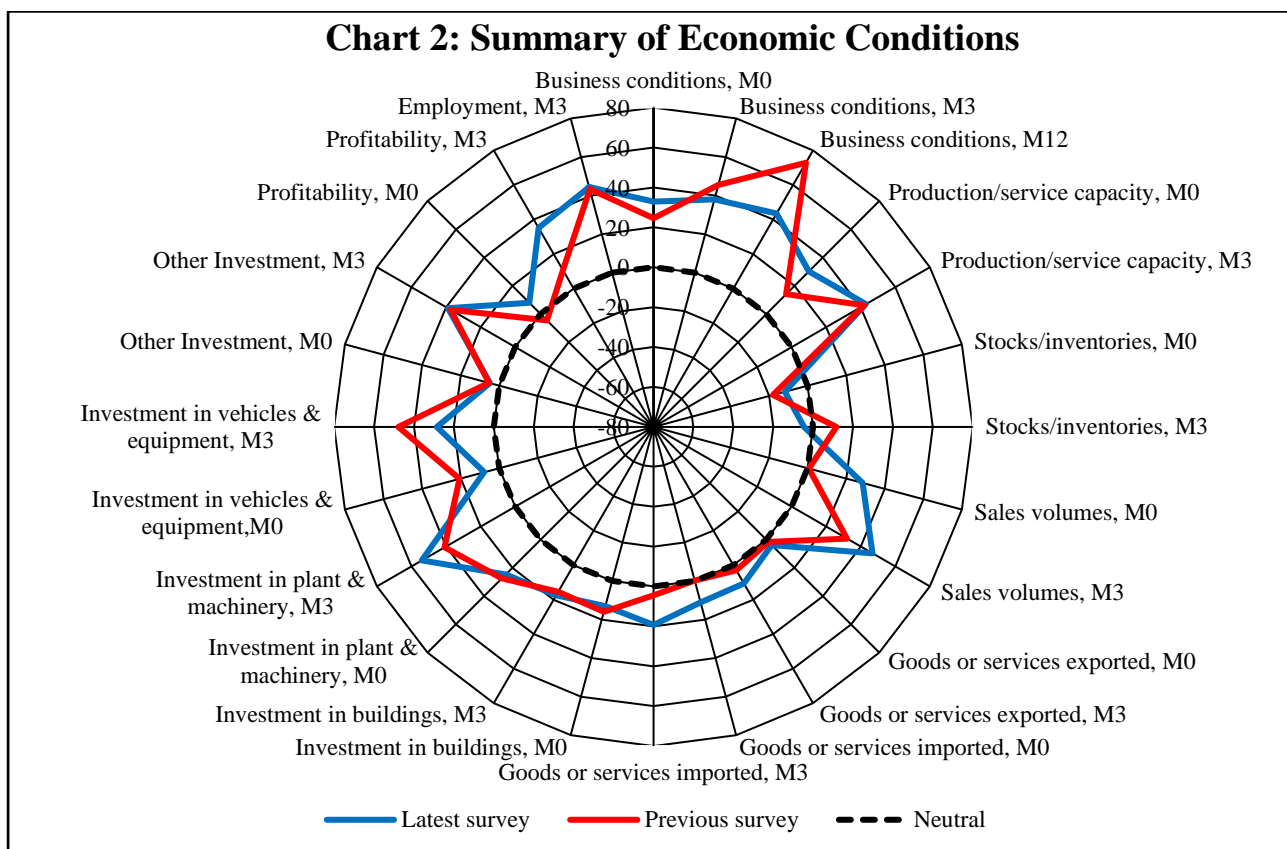


Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector’s economic performance expectations for the second quarter of 2024 to M12 (the period from July 2024 to June 2025).
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 led by the Finance, Professional and Administrative Activities; Mining and Quarrying; Retail, Accommodation, Transport and Communications; and Agriculture sectors expected business conditions to remain positive in the second quarter of 2024 (Chart 2). The optimism in the second quarter of 2024 is reflected in the anticipated growth in both exports and imports of goods and services; production; inventories; profitability; employment; as well as investment in buildings, plant and machinery. These expectations are likely bolstered by government initiatives to support economic activity, including reforms to enhance the business environment, which are expected to be positive for growth prospects. The surveyed entities expect business conditions to improve further in the third quarter of 2024 and in the year to June 2025.

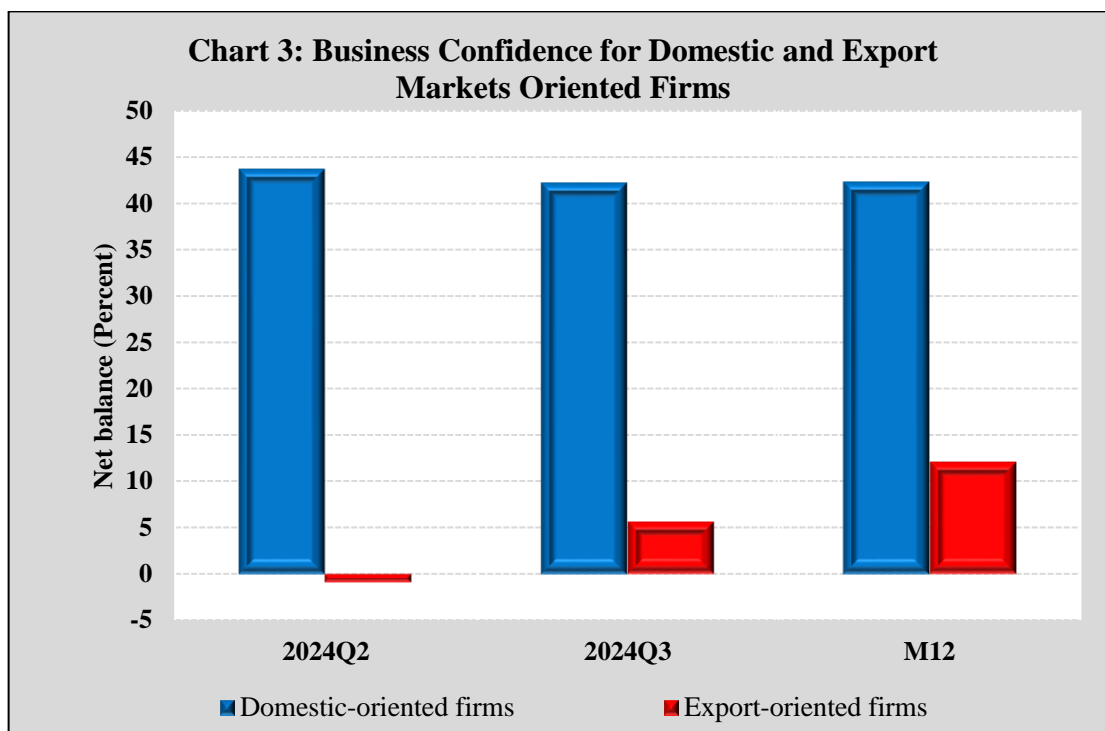


Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the June 2024 Survey, while the red line represents the results of the March 2024 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 second quarter of 2024, M3 represents expectations about business conditions for the third quarter of 2024, while M12 depicts the perceived business conditions for the 12-month period from July 2024 to June 2025. The red line denotes perceptions about business conditions as envisaged in the previous survey.

2.4 Chart 3 illustrates that confidence among export market-oriented firms about the third quarter of 2024 and the year to July 2025, is higher compared to the second quarter of 2024. Optimism among export market-oriented firms improves markedly for the year to June 2025 (M12), which is possibly indicative of the expected positive impact of the slight upward revision of the global growth forecast for 2025. Meanwhile, confidence among domestic market-oriented firms remains significantly high, despite marginally decreasing for the third quarter and for the year to June 2025.

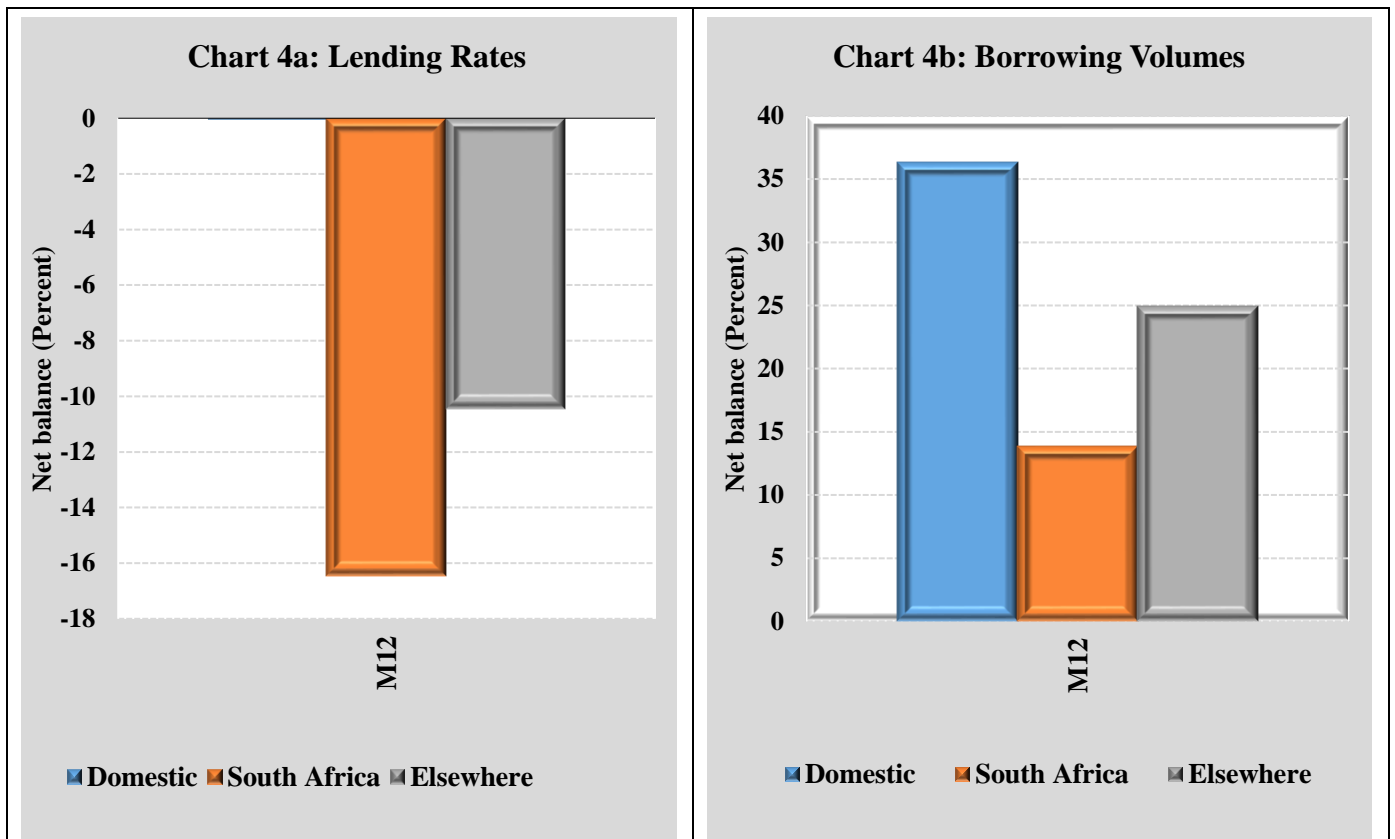


Source: Bank of Botswana

### 3. Lending Rates and Borrowing Volumes

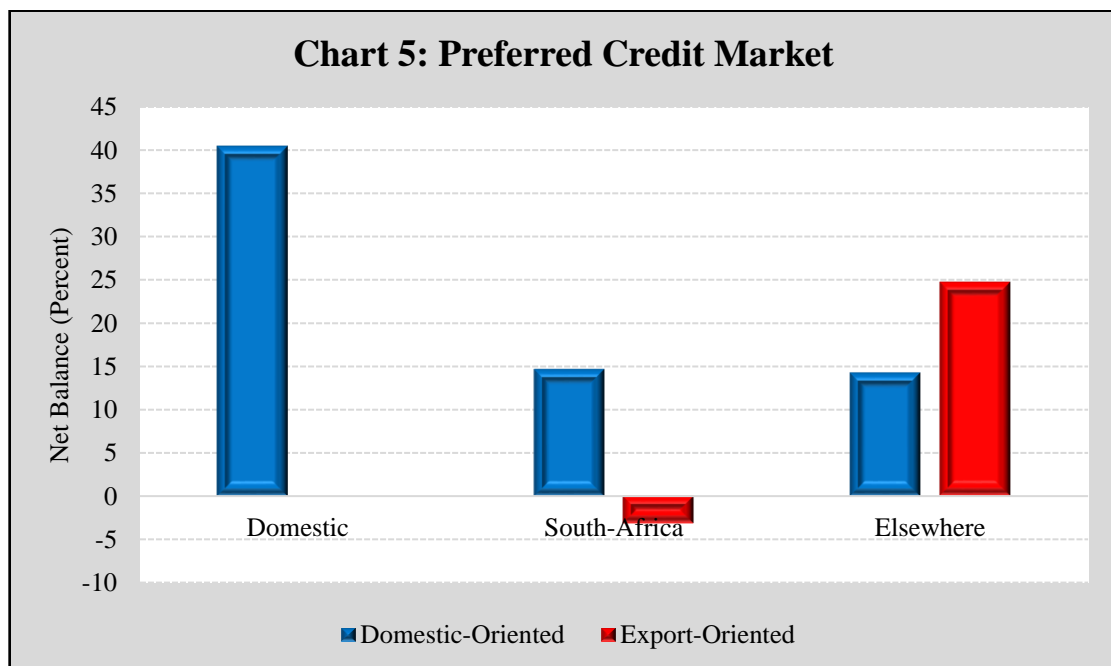
#### **Expected decrease in lending interest rates in South Africa and elsewhere and increase in borrowing volumes across all markets in the year to June 2025 (M12)**

- 3.1 Firms expect lending interest rates to decrease in South Africa and elsewhere, while remaining constant domestically (Chart 4a). Firms also expect an increase in the volume of borrowing from all markets (domestic, South Africa and elsewhere) in the 12-month period to June 2025, as depicted by the positive net balances in Chart 4b. The anticipated increase in borrowing volumes is consistent with the expected rise in employment, investment and profitability, possibly driven by the firms' expectation that domestic economic performance will improve during the same period. Meanwhile, the expectation about the decrease in interest rates in most markets is consistent with forecasts for monetary policy easing globally.



Source: Bank of Botswana

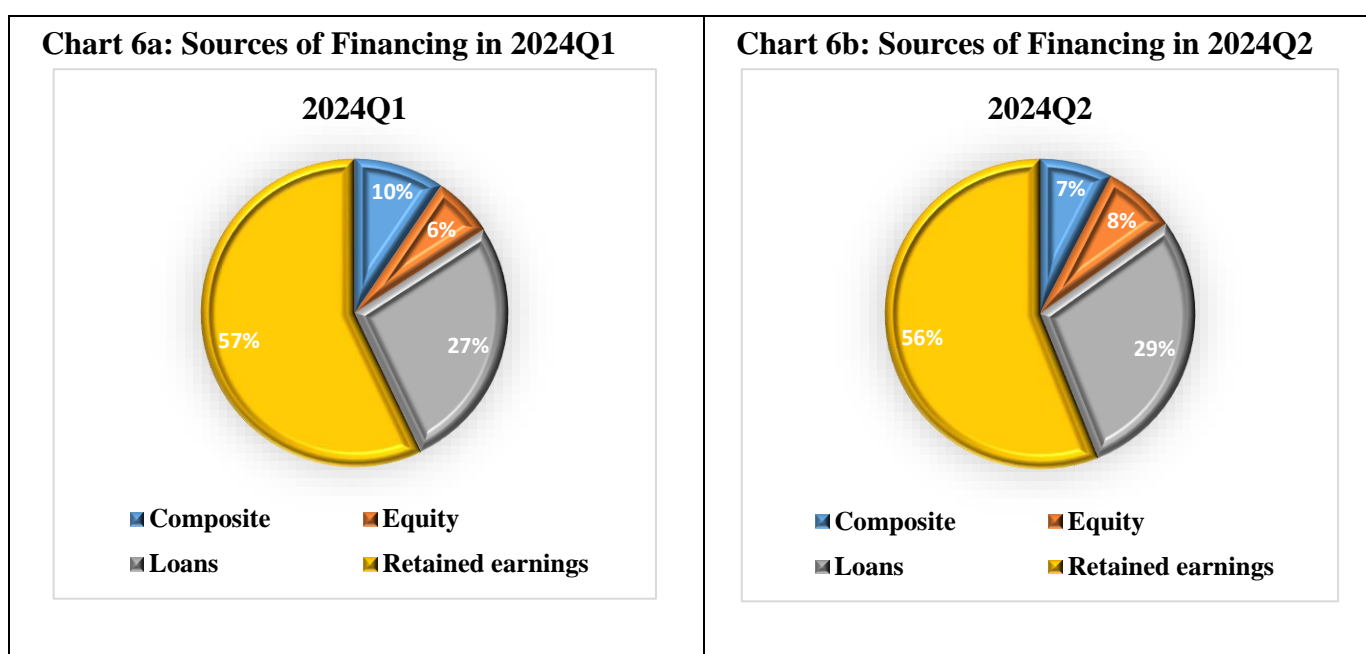
3.2 Most firms in the domestic-oriented market preferred borrowing from commercial banks in Botswana, in the second quarter of 2024, with only a few preferring to borrow in South Africa and elsewhere (non-domestic and non-South African markets) (Chart 5). Conversely, export market-oriented firms showed a preference for borrowing from elsewhere.



Source: Bank of Botswana

3.3 Approximately 46 percent of the surveyed firms indicated that their choice of credit market was mainly based on accessibility, while 23 percent indicated that their borrowing decisions were influenced by availability of appropriate credit facilities. Meanwhile, 13 percent of the firms cited affordability of suitable loan products as a determinant of where to borrow, while 18 percent mentioned a combination of factors, such as accessibility, availability, or affordability of the required loan products as influencing 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, equity as well as composite methods (a combination of financing sources), in that order as shown in Chart 6b. The preference for using retained earnings as a source of financing was prevalent among all sectors. However, some firms in sectors, such as Finance, Professional and Administrative Activities; Manufacturing; Construction and Real Estate and Retail, Accommodation, Transport and Communications; and Mining and Quarrying also ranked loans relatively high as a funding source.



Source: Bank of Botswana

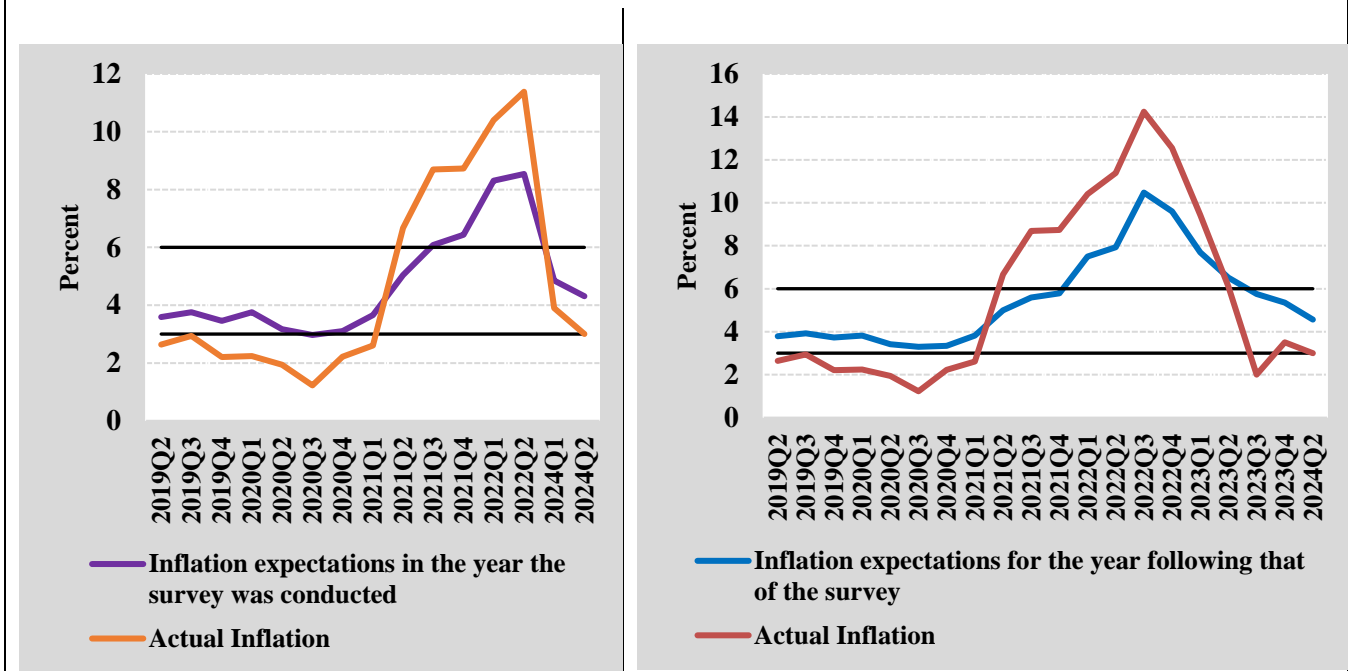
#### 4. Price Developments and Inflation

##### Cost pressures expected to decrease in the second quarter of 2024

4.1 Overall, firms expect cost pressures to decrease in the second quarter of 2024, mainly due to an anticipated reduction in input costs, such as materials, utilities and transport. Similarly, firms expect domestic inflation to be lower compared to the previous survey, averaging 4.3 percent for 2024 (down from 4.9 percent in the previous survey) and 3.4 percent for 2025 (down from 5 percent in the previous survey), thus remaining within the 3 – 6 percent objective range (Chart 7). This suggests that inflation expectations are well anchored.



**Chart 7: Inflation Expectations**

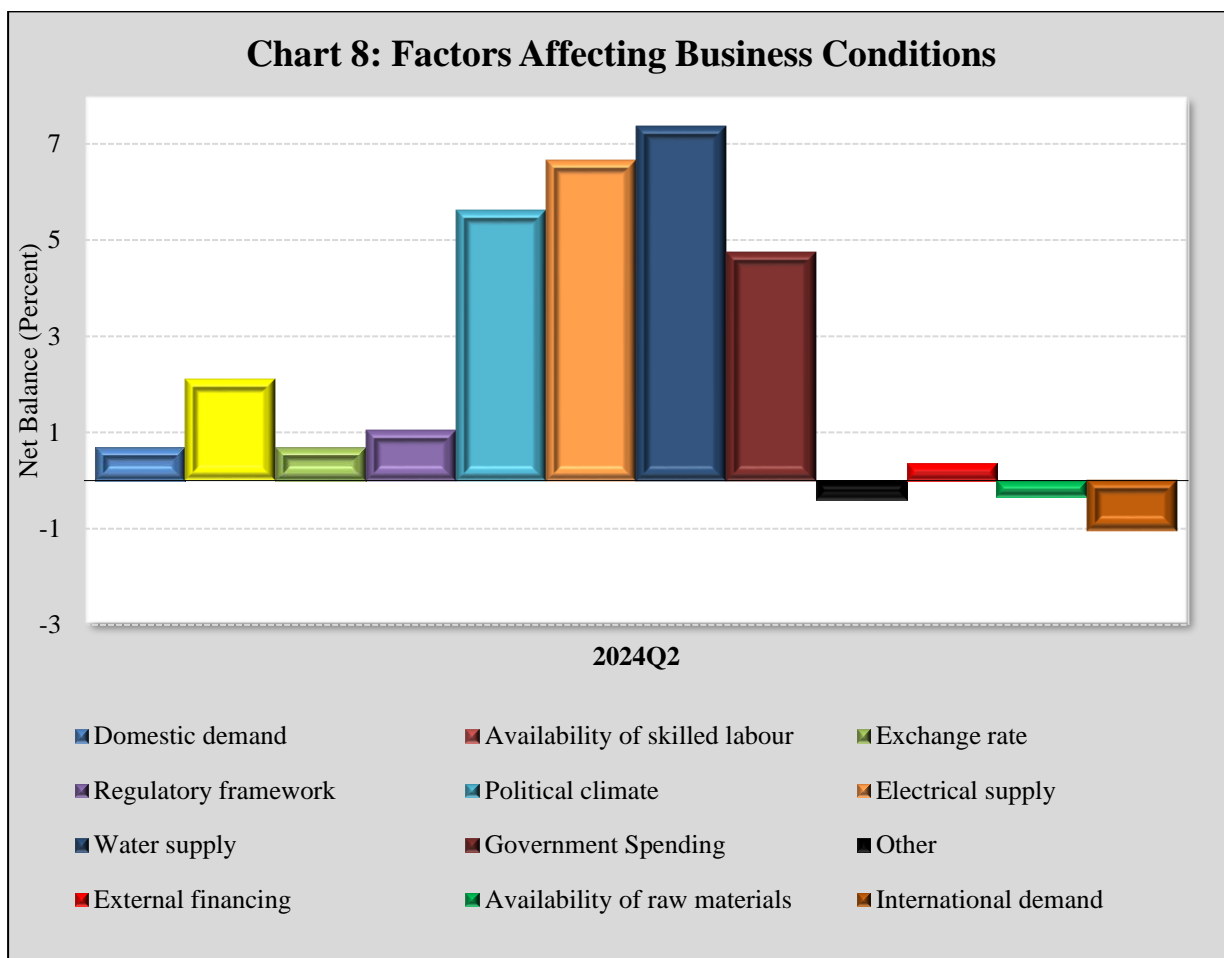


Source: Bank of Botswana

Notes: The charts show 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 2023 are about annual inflation in 2024, while those made in 2024 are about annual inflation in 2025.

## 5. Factors Affecting Business Conditions in the Second Quarter of 2024

- 5.1 In the second quarter of 2024, most firms in the Finance, Professional and Administrative Activities; Mining and Quarrying; Retail, Accommodation, Transport and Communications; Manufacturing; and Construction and Real Estate sectors (Chart 8) identified weak international demand as a major factor affecting their business operations. Challenges categorised as ‘Other’ were cited as the second major impediment to doing business in Botswana. Such challenges possibly include the supply constraints emanating from drought conditions which are negatively affecting agricultural output, as well as uncertainty emanating from the Russia-Ukraine and Israel-Hamas wars. Another challenge cited as being unfavourable to business operations was unavailability of raw materials domestically.
- 5.2 On the positive side, adequate water and electricity supply, a stable political climate, an effective regulatory framework, adequate government spending, availability of skilled labour, external financing and favourable exchange rate, were considered supportive factors for doing business in Botswana in the second quarter of 2024 (Chart 8).



Source: Bank of Botswana

## 6. Conclusion

6.1 Overall, firms were more optimistic about business conditions in the second quarter of 2024, compared to the first quarter. Business conditions are expected to improve further in the third quarter of 2024, and in the 12-month period to June 2025, supported by anticipated improvements in employment, profitability, inventories, production and business investment. These improvements likely reflect the impact of government interventions to support economic activity, including reforms aimed at improving the business environment. However, given the downside risks to global economic activity, including weaker global demand and the adverse impact of the Russia-Ukraine and Israel-Hamas wars, the growth trajectory remains uncertain. Firms expect the domestic economy to expand by 3.4 percent in 2024, while inflation is anticipated to average 4.3 percent in 2024 and 3.4 percent in 2025.