

# THE QUARTELY BUSINESS EXPECTATIONS SURVEY

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JUNE 2019

BANK OF BOTSWANA

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## 1. Introduction

### Description of the Survey

- 1.1 The Bank's quarterly Business Expectations Survey (BES)<sup>1</sup> collects information on the domestic business community's perceptions about the prevailing state of the economy, as well as economic prospects. In the survey, businesses respond to a range of questions relating to, among others, the business climate; outlook for economic growth; inflation and business performance over the survey horizon. The survey horizon comprises the quarter in which the survey is conducted, also referred to as the current period, the subsequent quarter and the next twelve months to June 2020.
- 1.2 This Report presents results of the survey carried out in the second quarter of 2019, covering the second quarter of 2019 (Q2:2019 - the current period); the third quarter (Q3:2019); and M12, the twelve-month period from July 2019 - June 2020 (Q3:2019-Q2:2020). The survey samples 100 businesses from eight economic sectors and these are: agriculture; mining; manufacturing; water and electricity; construction; trade; transport and communications, and business services. The response rate for this survey is 82 percent.
- 1.3 The survey questions mainly focus on the anticipated direction of change: i.e., whether conditions will improve, worsen or stay the same. The results are then consolidated on the basis of an overall 'net balance', obtained by summing the positive and negative responses for each question/element, weighted by each sector's contribution to nominal Gross Domestic Product (GDP). Thus, by design, the survey responses are predominantly qualitative, yet they provide valuable information to facilitate analysis and inform policy decisions.<sup>2</sup> However, responses to questions relating to GDP growth and inflation are quantitative and consolidated into simple averages.

### Highlights of the Survey Results

- 1.4 The results suggest that firms were optimistic about economic activity in the second quarter of 2019. Overall, businesses expected an increase in sales, capacity utilisation and profits in the second and third quarter of 2019. Firms intended to increase investment in buildings, plant and machinery, vehicles and equipment, and 'other' category, despite anticipating tight access to credit in the domestic market. Meanwhile, firms expect cost pressure to rise in the third quarter of 2019, mainly reflecting the anticipated upward pressure on costs of materials, wages and transport. However, firms expect inflation to remain stable and within the Bank's medium-term objective range of 3 - 6 percent going forward.

## 2. Economic Performance and Business Conditions

### Economic Growth is expected to be lower in 2019, than in 2018

- 2.1 Firms are less optimistic about economic performance in 2019 expecting a growth of 3.8 percent, which is less than the projection of 4.2 percent made in the 2019 Budget Speech and the 4.5 percent growth in 2018. It was expected that economic activity in the second quarter of 2019 would be mainly driven by mining and quarrying; finance and business services; and a combination of trade, hotels restaurants and transport and communications

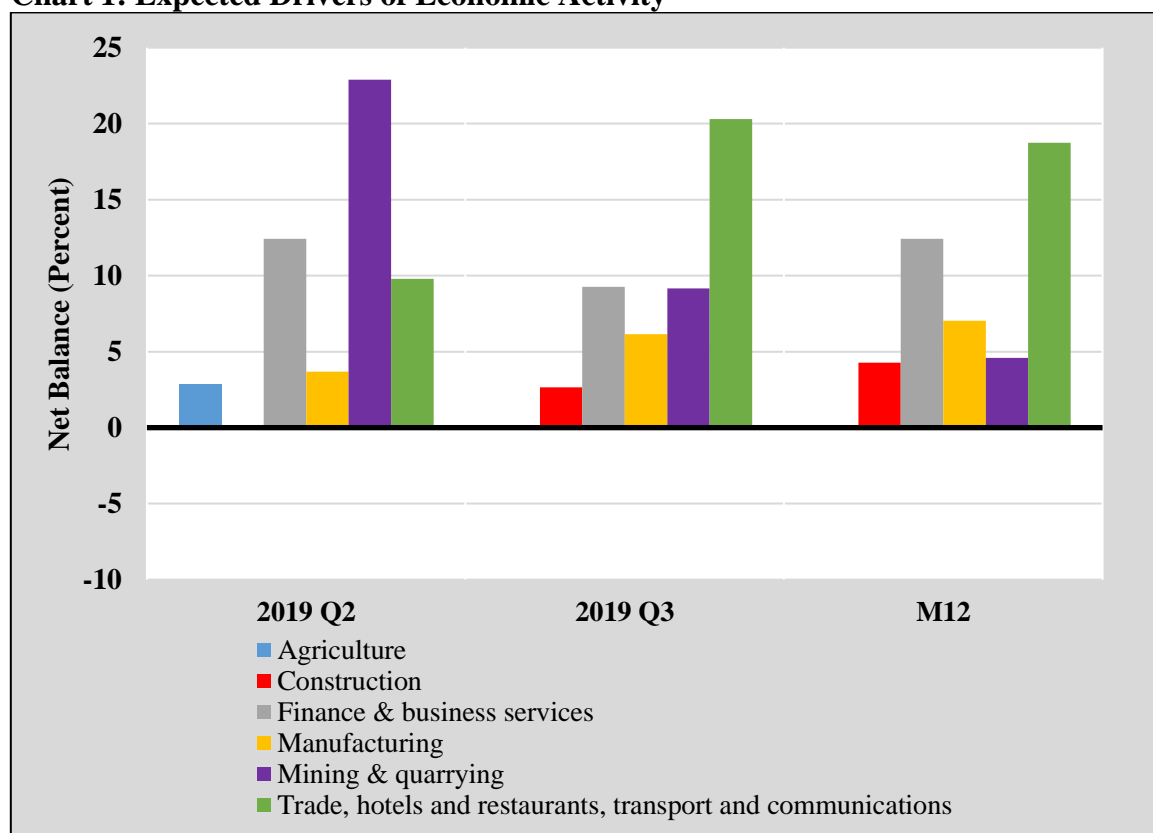
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<sup>1</sup> This is the first BES conducted on a quarterly basis, therefore, the current survey results will not be directly compared to that of March 2019, which was a bi-annual survey.

<sup>2</sup> A more detailed description of the survey can be found on the Bank of Botswana website at <http://www.bankofbotswana.bw/index.php/content/2009110615047-business-expectations-survey>.

sectors (Chart 1). The optimism in mining and quarrying, and the trade, hotels and restaurants and the transport and communications sectors could be attributable to the positive prospects for global demand, sales and prices for diamonds, as well as the improvement in tourism prospects. Construction was the only sector which anticipated business conditions to remain unchanged in the second quarter of 2019. This is possibly due to the slowdown in the construction of projects since the completion of some major construction works (such as the Botswana Unified Revenue Services building in the Gaborone Central Business District and various Economic Stimulus Programme projects) and the lower rate of increase in funds allocated for development in the current financial year. Meanwhile, all sectors, led the by trade, hotels and restaurants and the transport and communications sectors anticipate improved economic activity in the third quarter of 2019 and the year to June 2020.

**Chart 1: Expected Drivers of Economic Activity**

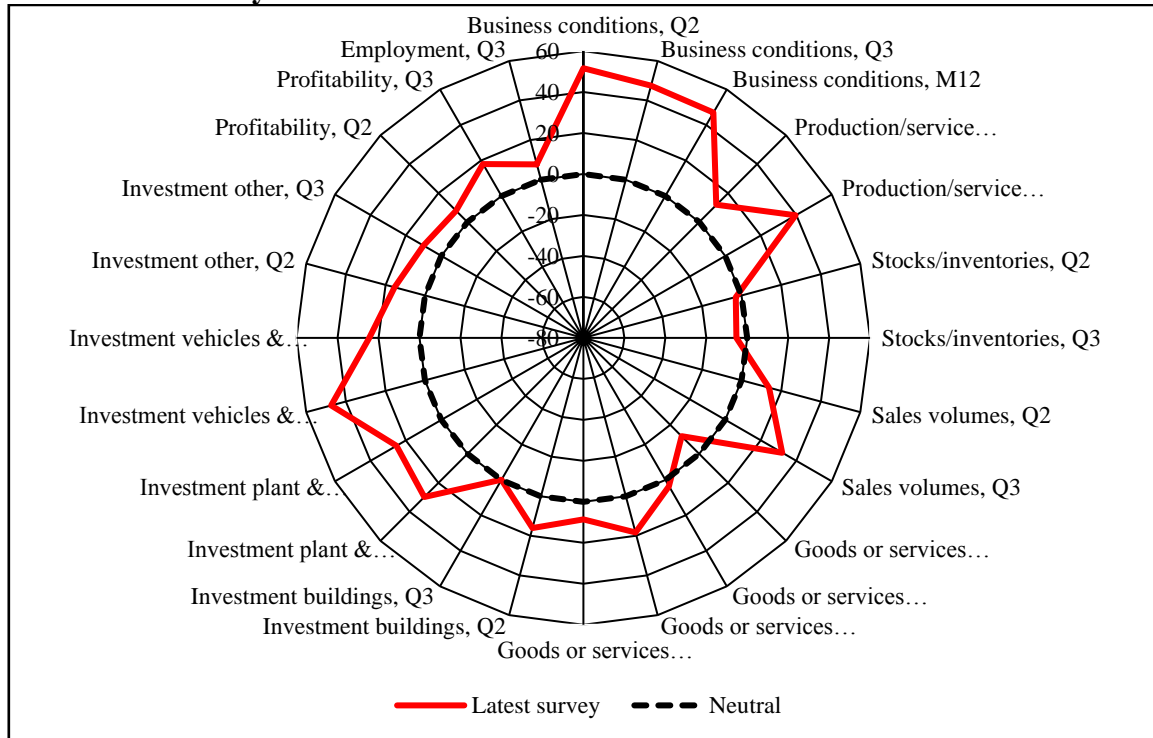


Note: The chart shows net balances on each sector's expectations about economic performance in the second quarter of 2019, third quarter of 2019 and the 12 months period to June 2020. The net balances are weighted by each sector's relative share in GDP. For example, for a sector with (P+N) members in the sample, of which 'P' indicated positive perceptions and 'N' negative, with a weight of Z percent in nominal GDP, the weighted net balance is calculated as  $[(P-N)/P+N] \times 100 \times Z$ .

2.2 Overall, business conditions are expected to remain positive during the second quarter of 2019, with the level of optimism at 52 percent. However, optimism eases to 48 percent in the third quarter of 2019 and 47 percent, in the twelve-month period to June 2020. Firms, mainly in mining and retail trade, hotels and restaurants intended to increase investment in buildings, plant and machinery, and vehicles and equipment during the second quarter of 2019. Furthermore, firms had also anticipated to increase: capacity/resource utilisation; production/service capacity; sales; and profitability during the same period.

2.3 Firms intend to lower their levels of investment in the third quarter of 2019, possibly due to the expected dampening effect arising from the perceived tight access to credit. Furthermore, firms anticipate reduced levels of stocks/inventories in the third quarter of 2019.

**Chart 2: Summary of Economic Conditions**

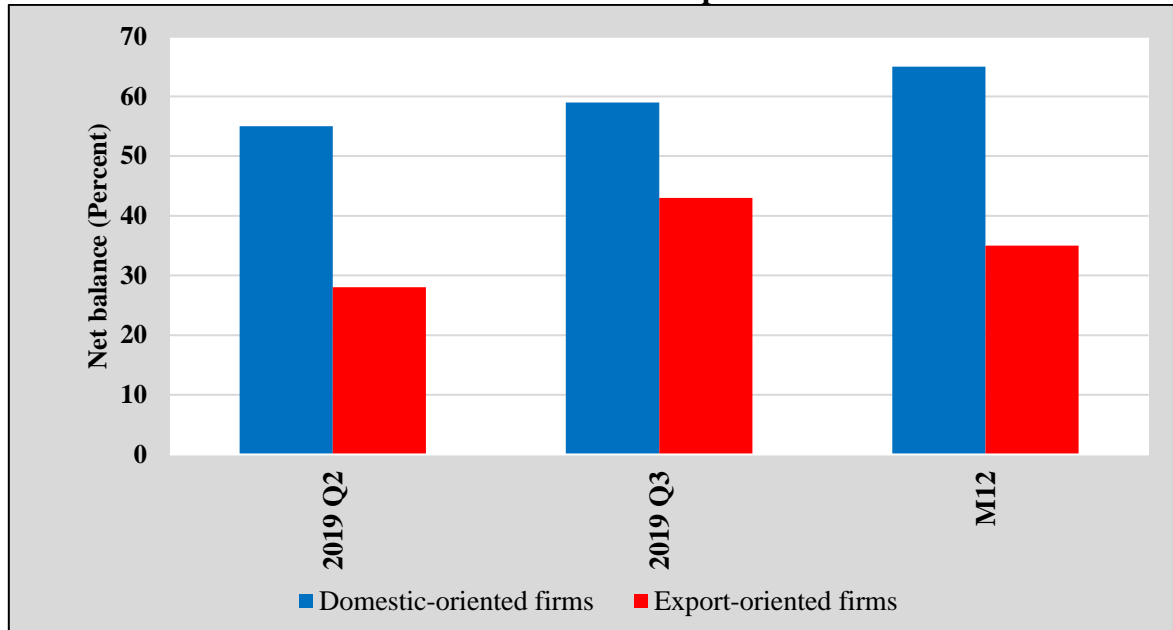


Notes: The chart summarises firms' expectations about business conditions. The red line represents the results of the June 2019 Survey. The black dashed line is the static position, representing unchanged expectations. The net balances of how respondents view economic conditions are plotted along the 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 survey, along the red line, are interpreted as follows: Q2 denotes perceptions about business conditions in the second quarter of 2019, Q3 represents expectations about business conditions for the third quarter of 2019, while M12 depicts the perceived business conditions for the twelve-month period from July 2019 to June 2020.

2.4 The domestic market-oriented firms were confident about business conditions in the second quarter of 2019 and the optimism improves in the third quarter of 2019 and the twelve-month period to June 2020 (M12) (Chart 3). Confidence in the domestic market-oriented firms is mainly driven by trade, hotels and restaurants, transport and communications and the finance and business services sectors. Export market-oriented firms are more optimistic about the third quarter of 2019 compared to other periods of the survey especially those engaged in the manufacturing business.

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

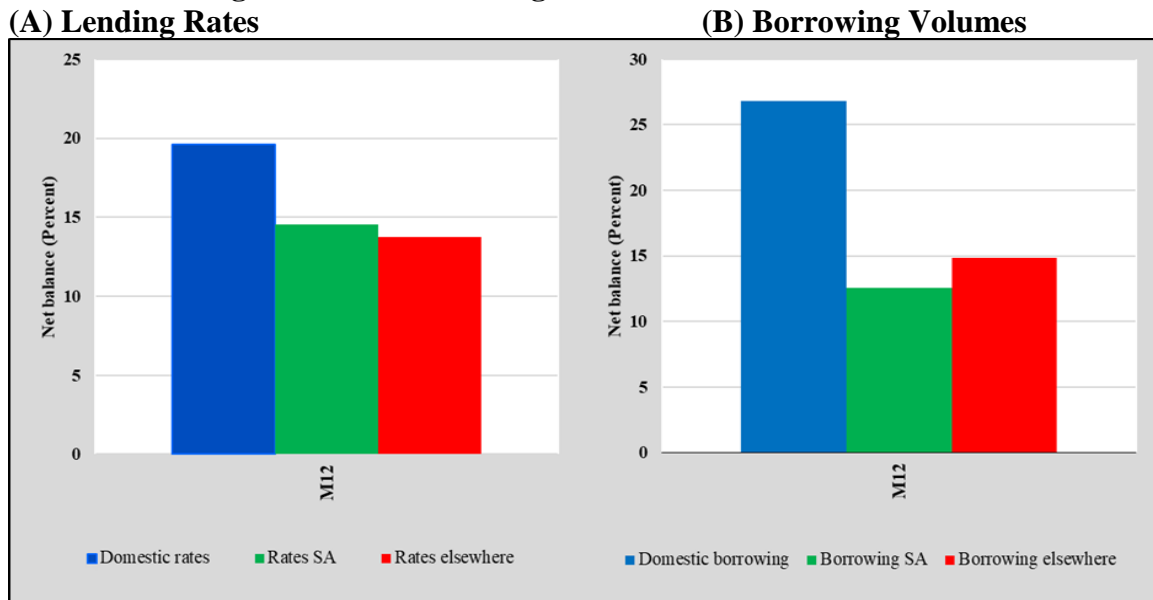


**3. Expected Lending Rates and Volume of Borrowing**

**Domestic lending rates and borrowing are expected to rise in the year to June 2020**

3.1 Firms expect the lending rates and the volume of borrowing from all markets (domestic South African and elsewhere<sup>3</sup> to increase in the twelve-month period to June 2020 (Chart 4). Notwithstanding the expected increase in lending rates, the anticipated increase in borrowing volumes is consistent with the expected rise in investment, especially in buildings.

**Chart 4: Lending Rates and Borrowing Volumes**

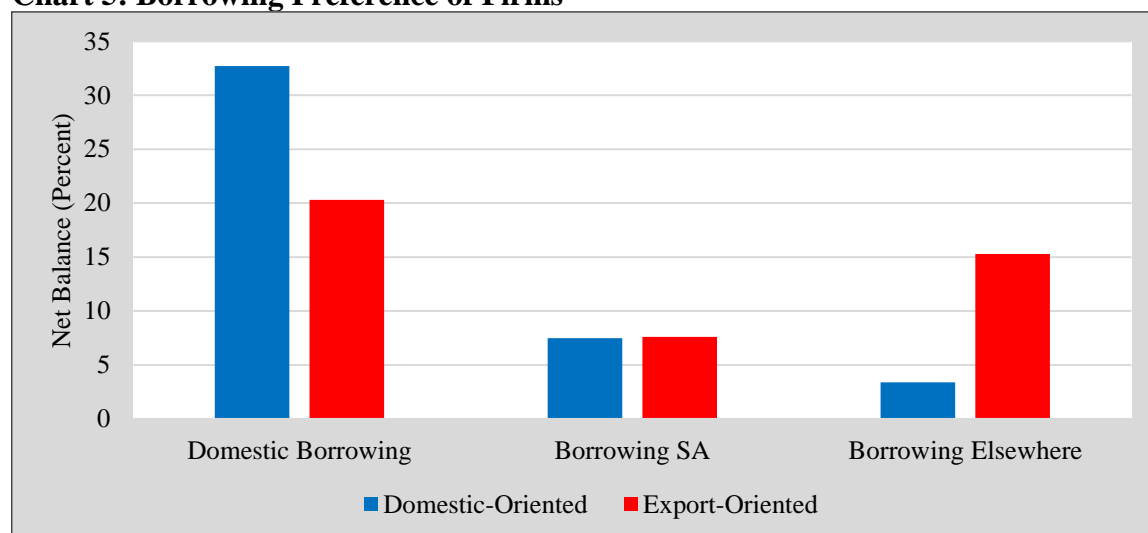


3.2 Firms in the domestic and export-oriented markets perceived access to credit to have been tight in the second quarter of 2019, mainly because they consider the cost of credit to have

<sup>3</sup> 'Elsewhere' refers to any market other than Botswana and South Africa.

been high in the period. During the year ending in June 2020, there is an inclination among firms, especially those targeting the domestic market, to borrow from domestic creditors. Conversely, export oriented firms tend to prefer to borrow from the international markets other than South Africa (Chart 5).

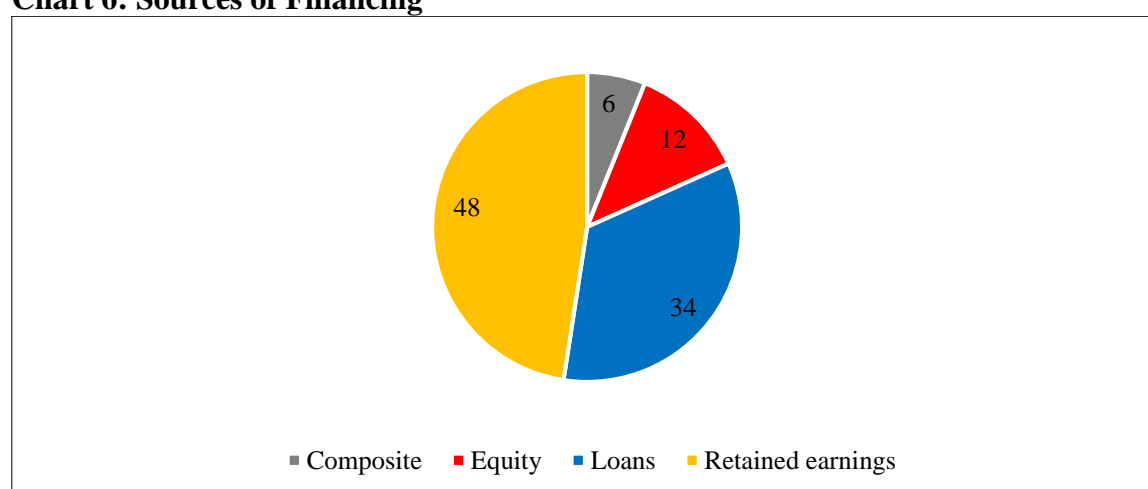
**Chart 5: Borrowing Preference of Firms**



3.3 Looking at factors that affect borrowing decisions, most of the firms which indicated preference to borrow from a particular market (domestic, South Africa and elsewhere), cited the availability of the required loan products in the respective markets as the basis for their choice. Affordability and accessibility of credit facilities influenced borrowing plans of about 30 percent of businesses irrespective of whether funds are to be sourced from Botswana or abroad.

3.4 The majority of firms prefer to finance their business operations from retained earnings and loans (Chart 6). Retained earnings as a source of finance is more prominent in the trade, hotels and restaurants, and the transport and communications sectors. On the other hand, most of the firms in manufacturing, finance and business services and the construction sectors plan to fund their businesses through loans.

**Chart 6: Sources of Financing**



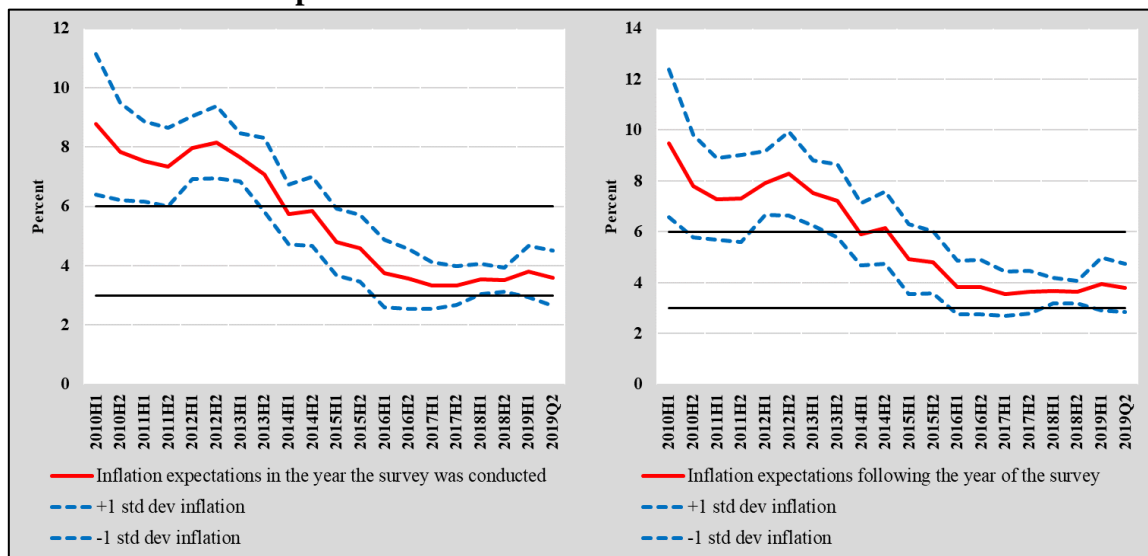
Note: Composite refers to a preference for a combination of more than one source of financing (e.g. retained earnings and loans).

## 4. Price Developments and Inflation

### Pressure from rising costs expected to increase in the third quarter of 2019

- 4.1 Overall, there is a strong expectation of cost escalation in the third quarter of 2019, attributable to the expected rise in wages and cost of materials and transport. Firms' expectations about domestic inflation have generally been on a downward trend since 2013, and within the Bank's inflation objective range of 3 - 6 percent since 2014 (Chart 7). Furthermore, uncertainty about future inflation has generally declined as shown by the narrowing standard deviation (std dev) from the average expectations. Firms' inflation expectations for 2019 average 3.6 percent, suggesting that inflation expectations are well anchored within the Bank's objective range.

**Chart 7: Inflation Expectations**



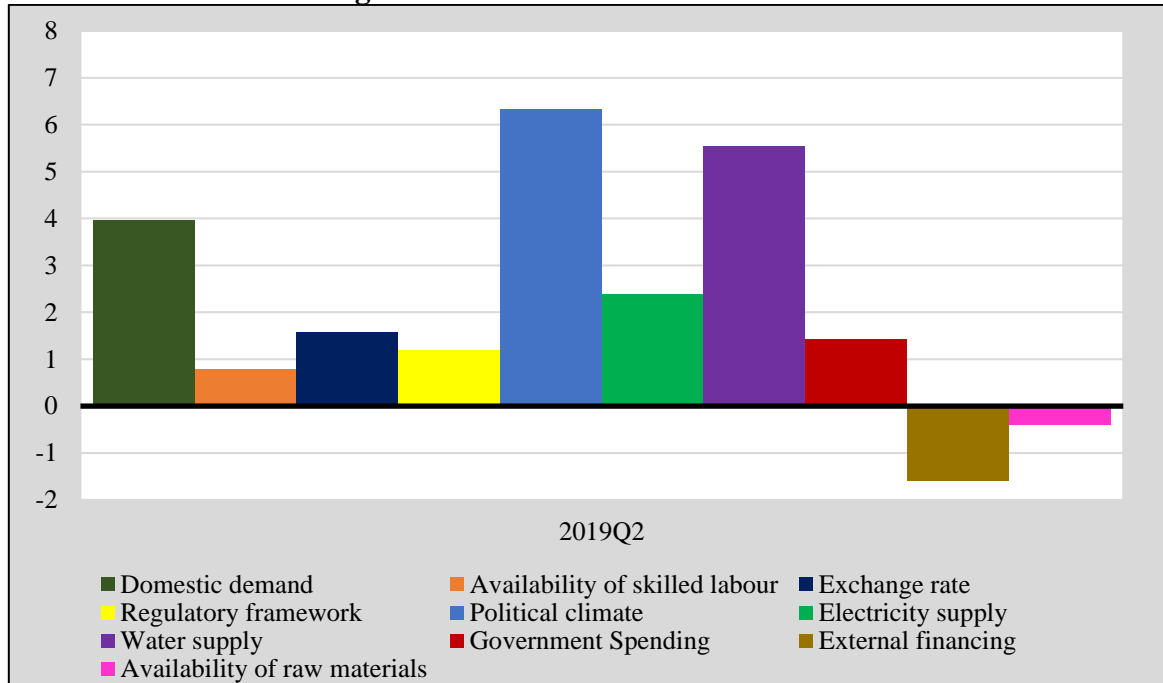
Note: The chart shows the average of inflation expectations across different surveys, as well as the standard deviation for the inflation expectations. Previously, the surveys were conducted biannually, but effective this survey, data is on quarterly basis. The bi-annual survey horizons comprised the half-year in which the survey was conducted/current period (H1) and the next half-year (H2).

## 5. Factors Affecting Business Conditions

### Lack of external financing is perceived to be a major challenge to doing business

- 5.1 A number of firms (predominantly market-oriented ones) across various sectors, cited the difficulty in accessing financing from abroad as the greatest challenge to their business operations in the second quarter of 2019. The second major business impediment is shortage of raw materials, commonly cited by the manufacturing sector, followed by construction and trade, hotels, restaurants and transport and communications. On the positive side, the political climate, domestic demand and the current exchange rate are viewed as being the most supportive factors to doing business in Botswana during the second quarter of 2019 (Chart 8). Another observation is that water and electricity sub-sectors reportedly contribute positively to economic activity. There are ongoing efforts to improve the supply of these utilities through measures such as the implementation of the North-South Carrier 2 water project and the North-West Transmission Grid electricity connection.

**Chart 8: Factors Affecting Business Conditions**



## 6. Conclusion

- 6.1 Overall, firms are confident about business conditions in the second quarter of 2019. However, the level of optimism declines in the third quarter of 2019, consistent with the anticipated higher cost pressures. Firms expect the economy to grow by 3.8 percent in 2019, lower than the 4.2 percent projection stated in the 2019 Budget Speech. Furthermore, on average, firms expect inflation to be slightly below 4 percent, which is consistent with the Bank’s projection that inflation will remain within the objective range of 3 - 6 percent in the medium term.