



QUARTELY BUSINESS EXPECTATIONS SURVEY

MARCH | 2026



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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 the domestic business community's perceptions of prevailing economic conditions and expectations over the survey horizon. The survey covers the quarter in which it is conducted (also referred to as the current period), the subsequent quarter, and the following 12 months. In completing the survey, businesses responded to questions on various topics, including the prevailing business conditions, expectations for economic growth and inflation, as well as anticipated business performance over the survey horizon.
- 1.2 The March 2026 BES report presents business expectations about the first quarter of 2026 (M0), the second quarter of 2026 (M3); and the 12 months from April 2026 to March 2027 (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 54 percent, an improvement from 50 percent in the December 2025 survey round.
- 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 aggregating the positive and negative responses to each question across firms within the same sector. The net balances are then weighed by each sector's relative contribution to Gross Domestic Product (GDP). Thus, by design, the survey responses are predominantly qualitative and provide valuable insights into business sentiment and emerging economic trends to support analysis and inform policy decisions. However, expectations for GDP growth and inflation are quantitative and reported as simple averages, while information on firms' choice of credit markets and sources of financing is expressed as proportions, that is, the percentage of firms selecting each option. As such, the results should be interpreted as indicative of sentiment and directional trends rather than accurate point forecasts.

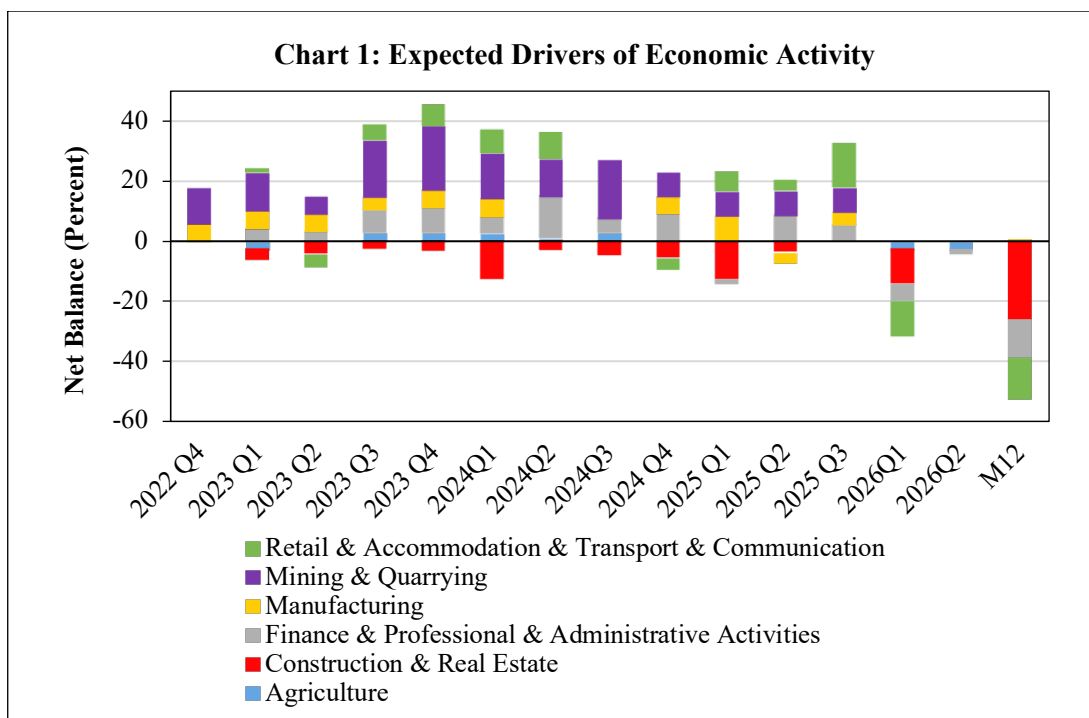
(b) Highlights of the Survey Results

Firms were generally pessimistic about business conditions in the first and second quarters of 2026, as well as in the year to March 2027. Consistent with the December 2025 survey results, limited government spending was identified as a major constraint to business operations, reflecting the country's weakened fiscal position. In addition, the exchange rate environment was viewed as unfavourable, partly due to adjustment costs and spillover effects associated with the July 2025 exchange rate policy changes. Firms expected higher overall cost pressures in the second quarter of 2026 compared to the first quarter, partly due to the war in the Middle East, through its effects on commodity prices, supply chains and overall business operating conditions. Furthermore, firms anticipated increases in both lending interest rates and borrowing volumes in the year to March 2027. Nevertheless, firms expect inflation to remain within the 3–6 percent objective range in 2026 and 2027, indicating that inflation expectations remain well anchored.

2. Business Conditions and Economic Performance

National Output expected to recover modestly in 2026

- 2.1 Firms expect overall output to expand by 1.7 percent in 2026, marking a modest recovery from the 0.7 percent contraction recorded in 2025. The positive outlook suggests a gradual stabilisation in growth momentum, broadly aligned with the Ministry of Finance's projection of 3.1 percent growth in 2026. For the first and second quarters of 2026, firms anticipate modest growth of 0.9 percent and 1.4 percent, respectively.
- 2.2 Firms in the Construction and Real Estate; Finance, Professional and Administrative Activities; Retail, Accommodation, Transport and Communication; and Agriculture sectors expressed pessimism about business conditions in the first quarter of 2026 (Chart 1). By contrast, the assessment of business conditions by firms in the Mining and Quarrying sector, as well as those in the Manufacturing sector was neutral during the period under review.
- 2.3 Furthermore, firms in Agriculture, Forestry and Fishing; Finance, Professional and Administrative activities were pessimistic about business conditions in the second quarter of 2026 (Chart 1). By contrast, firms in the Mining and Quarrying; Manufacturing; Construction and Real Estate; Retail, Accommodation, Transport and Communication sectors reported a neutral perception on business conditions in the second quarter of 2026.
- 2.4 In addition, firms in Construction and Real Estate; Finance, Professional and Administrative activities; Retail, Accommodation, Transport and Communication sectors were pessimistic about business conditions in the year to March 2027 (Chart 1). Meanwhile, the perception of firms in the Mining and Quarrying; Agriculture, Forestry and Fishing, as well as Manufacturing sectors on business conditions was neutral during the period under review.



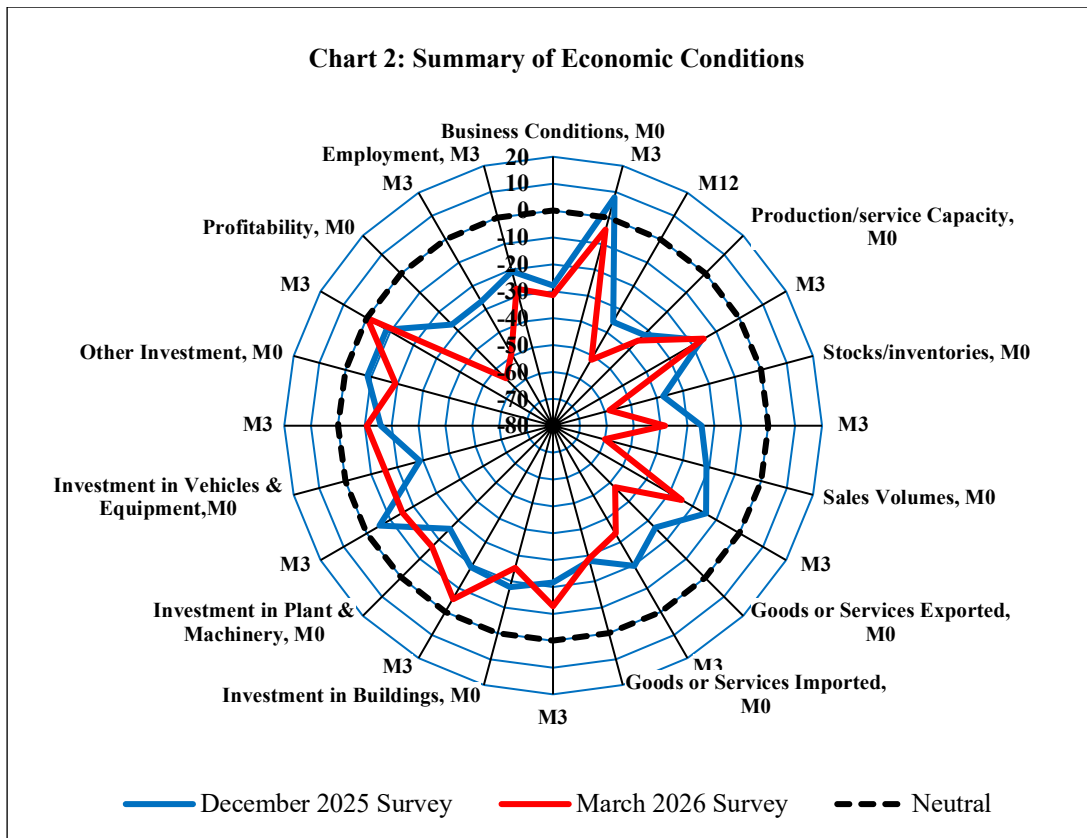
Source: Bank of Botswana

Notes:

1. The chart shows net balances of economic performance expectations across all sectors for the first and second quarters of 2026, as well as for the 12-months to March 2027 (M12).
2. The net balances are weighted by each sector's relative contribution to 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 $[(P-N)/P+N] \times 100 \times Z$.

2.5 Overall, firms perceived business conditions to be less supportive of economic activity in the first quarter of 2026 and expect this outlook to persist into the second quarter of 2026 and through to March 2027 (Chart 2). The cautious outlook is consistent with the country's weakened fiscal position, characterised by lower government revenue and constrained cash flows, which have, in turn, limited the pace of government spending. These conditions largely reflect subdued diamond export earnings relative to the preceding years, with adverse implications for fiscal revenue and domestic liquidity conditions.

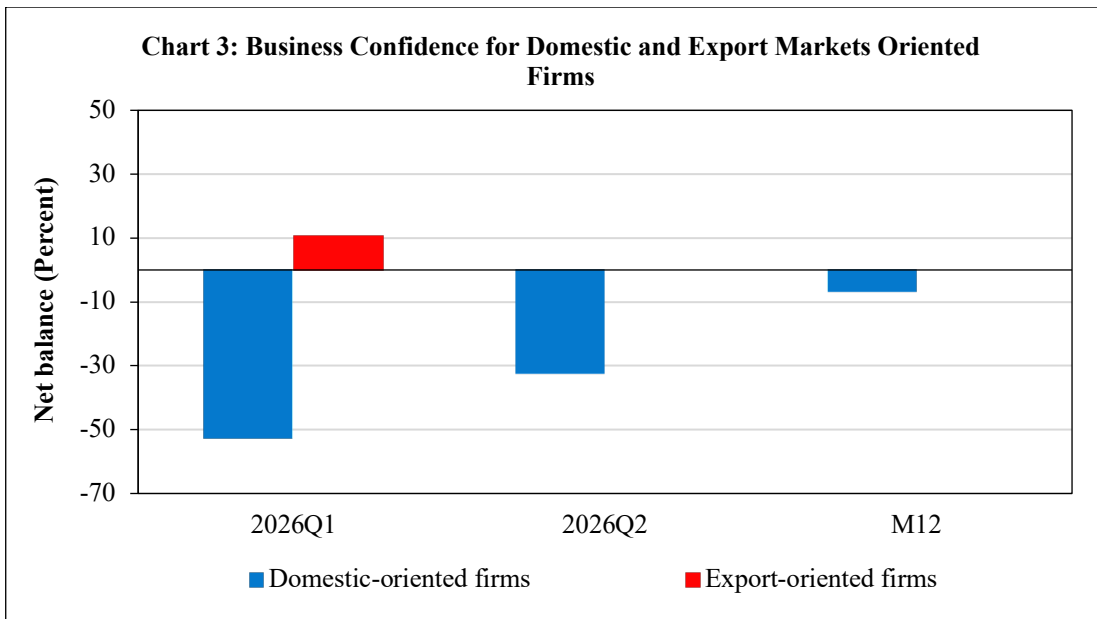
Chart 2: Summary of Economic Conditions



Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the December 2025 Survey, while the red line represents the results of the March 2026 Survey. The black dashed line is the static position, representing neutral expectations.
 2. The net balances reflecting respondents' views on economic conditions are plotted along the slanted lines extending from the centre of the chart. Movements away from the centre of the chart show an improvement, while movements towards the centre of the chart represent a deterioration.
 3. The current survey results, represented by the red line, represent firms' perceptions of business conditions in the first quarter of 2026 (M0), the second quarter of 2026 (M3), and the 12 months to March 2027 (M12).
- 2.6 Chart 3 shows a decline in pessimism among domestic market-oriented firms, from the first quarter of 2026 to March 2027. The improvement is aligned with expected economic recovery supported by implementation of the Botswana Economic Transformation Programme. However, firms are more cautious in the first quarter, reflecting uncertainty regarding input and import costs, subdued global economic conditions, and supply chain disruptions arising from heightened geopolitical tensions.
- 2.7 By contrast, export-oriented firms were optimistic about business conditions in the first quarter of 2026. This positive outlook is partly consistent with the exchange rate policy adjustments, including a faster depreciation rate of the Pula implemented in July 2025 to support export competitiveness. However, export-oriented firms perceived business conditions in the second quarter of 2026 and in the year to March 2027 to be neutral.

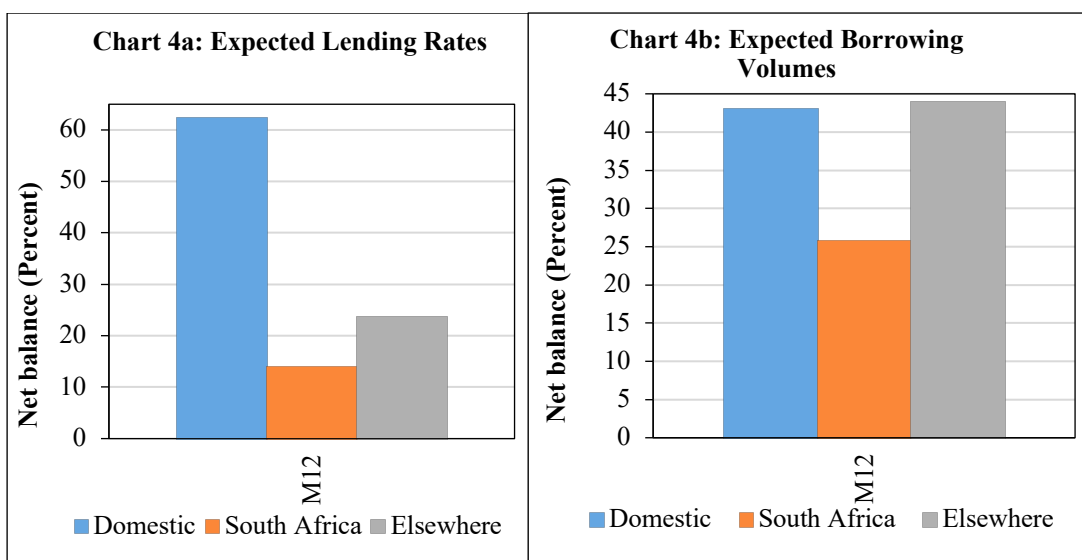


Source: Bank of Botswana

3. Lending Interest Rates and Borrowing Volumes

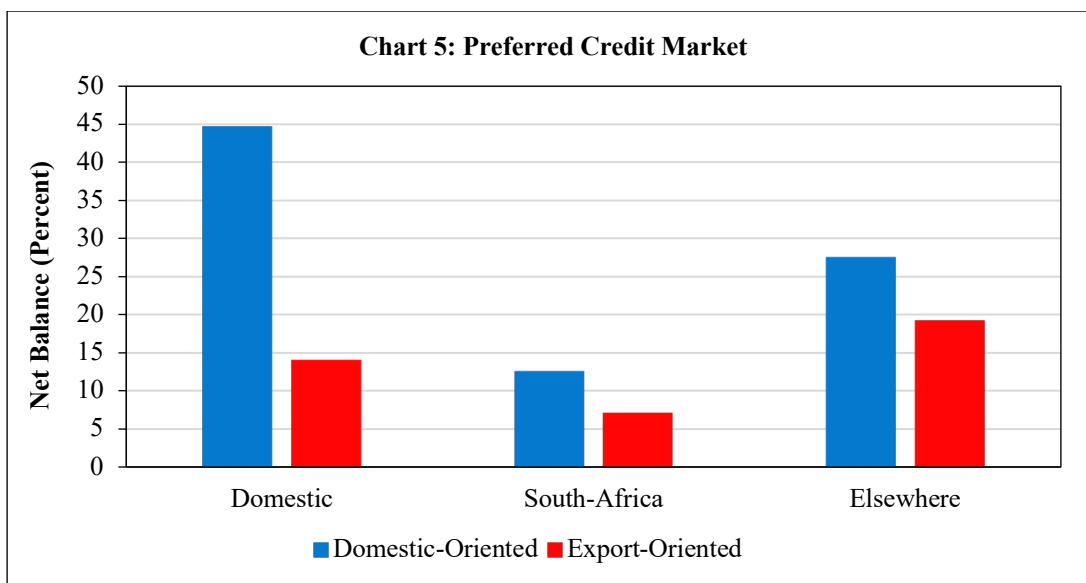
Lending interest rates and borrowing volumes expected to increase across all markets in the 12 months to March 2027 (M12)

- 3.1 Firms expect lending interest rates to increase across all markets (domestic, South Africa and elsewhere) in the year to March 2027 (Chart 4a). This expectation is likely influenced by currently elevated domestic lending rates amid liquidity distribution challenges in the banking system and weak domestic economic activity. However, only a few firms expect lending interest rates to increase in South Africa, likely reflecting the reduction in the policy (repo) rate in November 2025, which lowered the cost of borrowing in the country. Notwithstanding the anticipated rise in lending interest rates, firms also expect borrowing volumes to rise across all markets over the same period (Chart 4b), with most firms preferring to borrow domestically. This increase may in-part reflect rising working-capital requirements and liquidity needs rather than expansionary investment intentions. At the same time, investments and funding requirements associated with the Botswana Economic Transformation Programme may also support increased demand for credit.



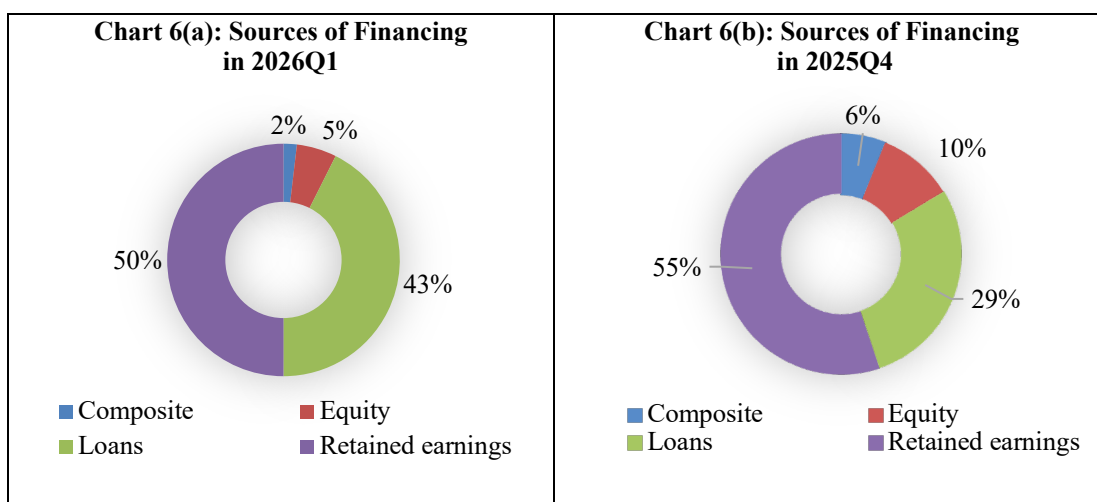
Source: Bank of Botswana

- 3.2 Most domestic market-oriented firms prefer to borrow domestically (Botswana) in the year ending March 2027 (Chart 5). This preference reflects continued reliance on domestic credit markets, owing to both structural and practical considerations. These firms primarily generate revenues in local currency and operate within Botswana, making domestic borrowing more attractive due to lower currency risks. In addition, local financial institutions are likely to have a better understanding of domestic firms' operating conditions, enabling comparatively more favourable lending terms and easier access to credit.
- 3.3 By contrast, most export market-oriented firms prefer to borrow elsewhere (Chart 5), reflecting their greater integration into international capital markets. These firms earn revenues in foreign currency and, may therefore, seek external financing to match the currency composition of their income, thereby limiting exchange rate risk. Moreover, offshore borrowing may provide access to deeper capital markets, a wider range of financing instruments, and potentially more competitive interest rates, particularly for larger firms with established export relations. This pattern also suggests that export market-oriented firms may be better positioned to meet the requirements of foreign lenders, including credit-worthiness standards and collateral requirements, than their domestically focused counterparts.
- 3.4 Market preference is also influenced by several additional factors, including the availability of credit, access to credit facilities, the affordability of credit, and the interaction of these conditions. A notable portion of firms (45 percent) indicated that their borrowing preference is primarily shaped by access to credit, while 27 percent cited availability, 20 percent pointed to affordability, and the remaining 8 percent highlighted a combination of these factors. This suggests that barriers to accessing credit, such as collateral requirements and stringent documentation of credit history may disproportionately constrain firms, particularly small, medium and micro enterprises, in their ability to secure finance relative to the cost of borrowing. Consequently, lending conditions are more likely to favour established firms.



Source: Bank of Botswana

3.5 Further, some firms continued to rely primarily on retained earnings to finance their operations in the first quarter of 2026, although the proportion declined to 50 percent from 55 percent in the fourth quarter of 2025 (Chart 6a and 6b). In contrast, the preference for loan financing increased from 29 percent to 43 percent, while the share of firms preferring equity financing decreased from 10 percent to 5 percent. Similarly, the preference for composite financing decreased from 6 percent to 2 percent. The increased preference for loan financing alongside a decline in equity financing suggests that firms may be seeking to address immediate working capital needs amid cautious business conditions, while remaining reluctant to dilute ownership or incur higher transaction costs and longer timeframes typically associated with equity financing.



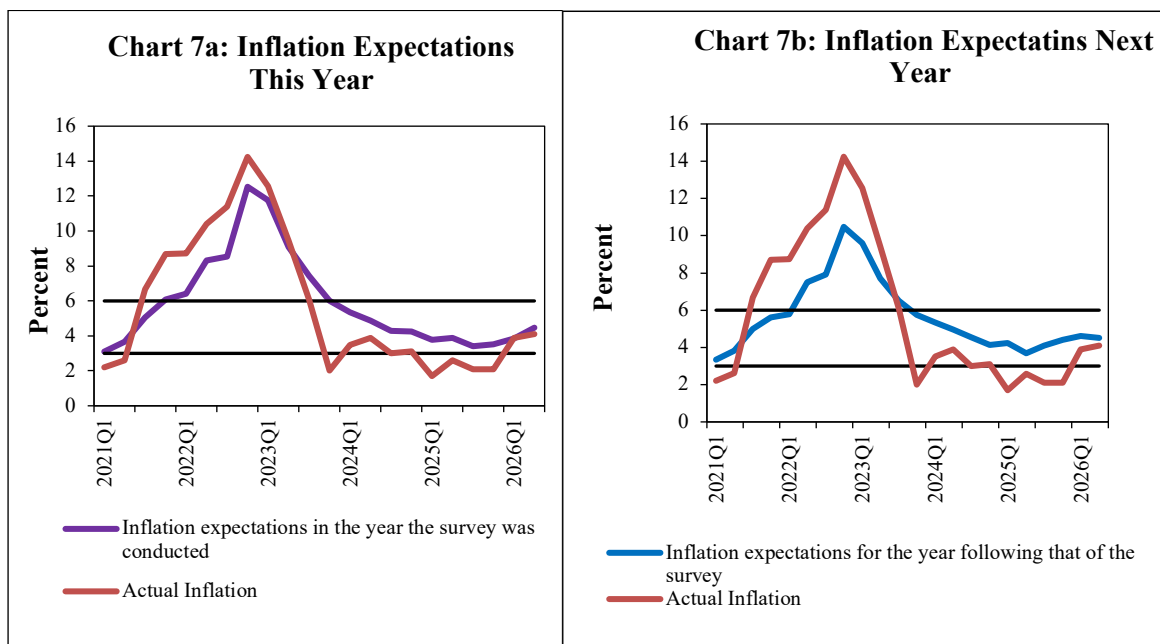
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to increase in the second quarter of 2026

4.1 Overall, firms expect cost pressures to rise modestly in the second quarter of 2026 compared with the first quarter of 2026, driven mainly by anticipated increases in input costs, particularly for materials, rent, utilities and transport, owing to spillover effects from the ongoing Middle East war, which has already led to a significant increase in

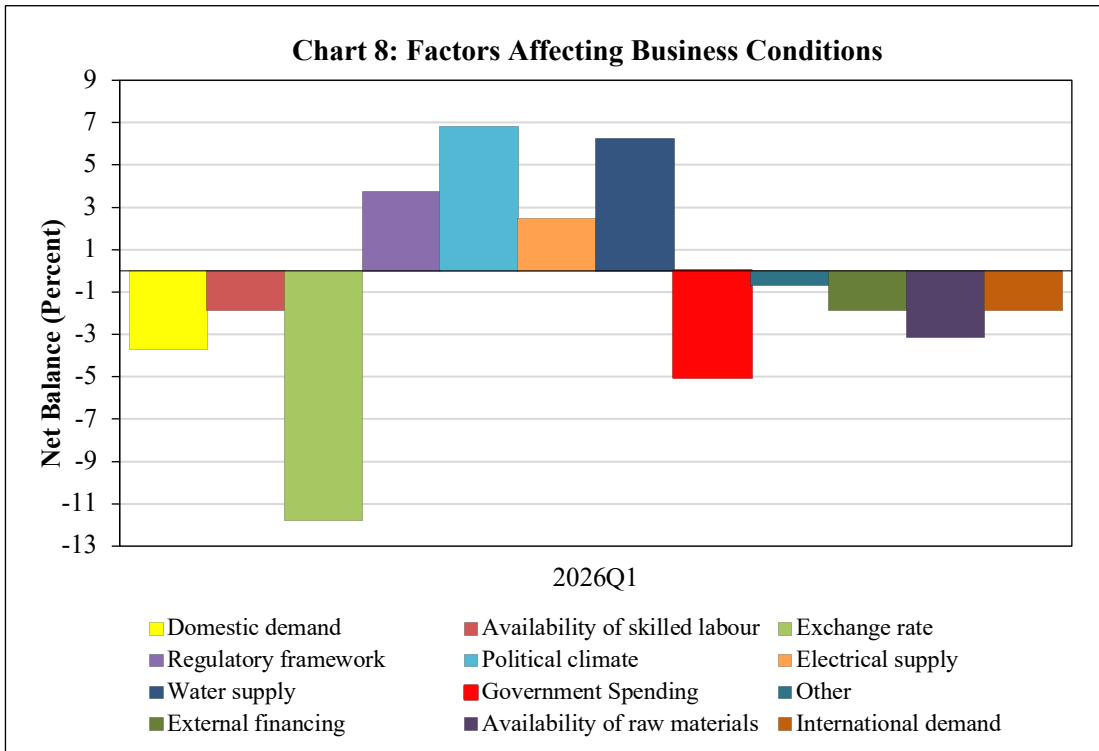
fuel prices, contributing to tighter and more volatile business operating conditions. However, firms expect domestic inflation to average 4.5 percent in both 2026 and 2027 (Charts 7a and 7b), remaining within the 3–6 percent medium-term objective range, indicating that inflation expectations remain well anchored.



Source: Bank of Botswana

5. Factors Affecting Business Conditions in the first Quarter of 2026

- 5.1 Consistent with the December 2025 survey, firms identified constrained government spending and an unfavourable exchange rate environment as the main factors adversely affecting business operations in the first quarter of 2026 (Chart 8). The latter reflects the high import intensity of local businesses and the economy generally. Thus, the need to intensify the messaging around the need for reorientation of the economy, including adaptation of transformation initiatives geared towards enhancing domestic industry competitiveness, expanding domestic production and promoting export-orientation for market expansion. Other challenges cited include subdued international and domestic demand, limited availability of raw materials, and constrained access to external financing. On the positive side, firms highlighted several supportive conditions for business activity, notably reliable water and electricity supply, a stable political environment, and a predictable regulatory framework.



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were more pessimistic about business conditions in the first quarter of 2026 compared to the fourth quarter of 2025, reflecting constrained operating conditions for businesses in the short-to-medium term. This pessimistic outlook largely stems from the country's weaker fiscal position, characterised by lower government revenues, constrained cash flows and, consequently, a restrained pace of government spending. Meanwhile, firms expect the domestic economy to grow by 1.7 percent in 2026, a modest recovery from the 0.7 percent contraction recorded in 2025. Despite the anticipated inflationary pressures associated with higher input costs and elevated fuel prices, inflation is expected to average 4.5 percent in both 2026 and 2027, suggesting that inflation expectations remain well anchored within the 3–6 percent objective range.