

THE QUARTELY BUSINESS EXPECTATIONS SURVEY



DECEMBER 2019
BANK OF BOTSWANA

1. Introduction

Description of the Survey

- 1.1 The Bank's quarterly Business Expectations Survey (BES) collects information on the domestic business community's perceptions about the prevailing state of the economy and prospects. In the survey, businesses respond to a range of questions relating to, among others: the prevailing business climate; outlook for economic growth and 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.
- 1.2 This Report presents results of the survey carried out in the fourth quarter of 2019, covering the fourth quarter of 2019 (Q4:2019 - the current period); the first quarter of 2020 (Q1:2020); and the twelve-month period (M12) from January 2020 - December 2020 (Q1:2020-Q4:2020). The BES samples 100 businesses from eight economic sectors: agriculture; mining; manufacturing; water and electricity; construction; trade, hotels and restaurants; transport and communications; and business services. The response rate for the current survey is 82 percent.
- 1.3 The survey questions focus mainly on anticipated direction of change in selected indicators: i.e., whether conditions will improve, worsen or remain unchanged. The results are then consolidated into an overall measure called 'net balance'. This measure is obtained by summing the positive and negative responses to each question/element by firms belonging to the same sector, which are then 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. 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 less optimistic about economic activity in the fourth quarter of 2019 compared to the third quarter of 2019. Overall, businesses expected a decrease in exports of goods and services; sales; and investment in buildings, vehicles and equipment in the fourth quarter of 2019. However, firms intend to increase investment in buildings, plant and machinery, vehicles and equipment in the first quarter of 2020, despite anticipating tight access to credit in the domestic market. Meanwhile, firms expect cost pressure to fall slightly in the first quarter of 2020, mainly reflecting the anticipated downward pressure on rentals, wages and transport costs. They also 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

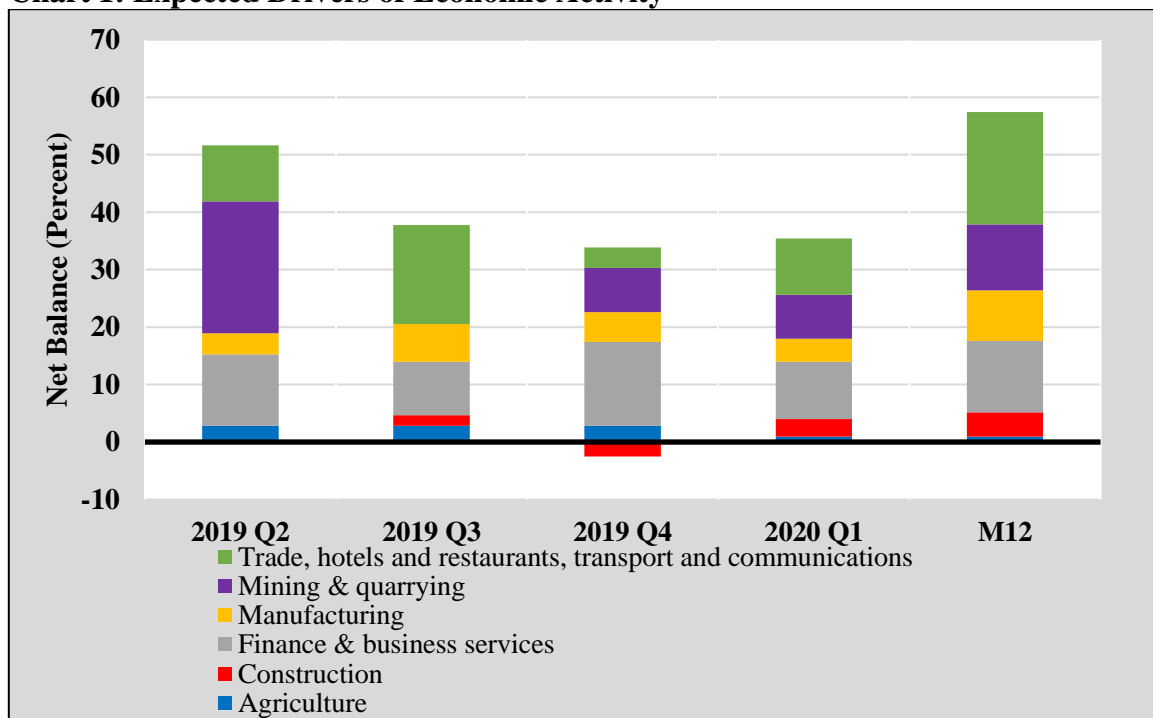
Economic Growth is expected to be lower in 2019, than in 2018

- 2.1 Firms were less optimistic about economic performance in 2019, with an expected output growth of 3.7 percent, which is marginally higher than the Ministry of Finance and Economic Development's (MFED) projection of 3.6 percent, but lower than the 4.5 percent growth in 2018. On a quarterly basis, firms expected a decline in economic performance in the fourth quarter compared to the third quarter of 2019, mainly attributed to weak economic conditions: a decline in exports of goods and services; capacity/resource

utilisation; production/service capacity; investment in buildings, vehicles and equipment; and ‘other’ investments¹.

2.2 Firms expected the economy to have grown by 3.3 percent in the fourth quarter of 2019, lower than 3.5 percent growth projected for the third quarter of 2019. These developments were reflected in responses by firms in the trade, hotels and restaurants and transport and communications, the construction as well as the manufacturing sectors (Chart 1). The perceptions about weak performance in the trade, hotels and restaurants sector could be attributed to the trade tensions between the United States of America and China, which is adversely affecting the diamond sales. Despite lower performance expectations, all other sectors, led by the finance and business services and mining and quarrying sectors were optimistic about economic activity in the fourth quarter of 2019. Meanwhile, the GDP estimates indicate that the economy grew by 3.1 percent in the third quarter of 2019.

Chart 1: Expected Drivers of Economic Activity

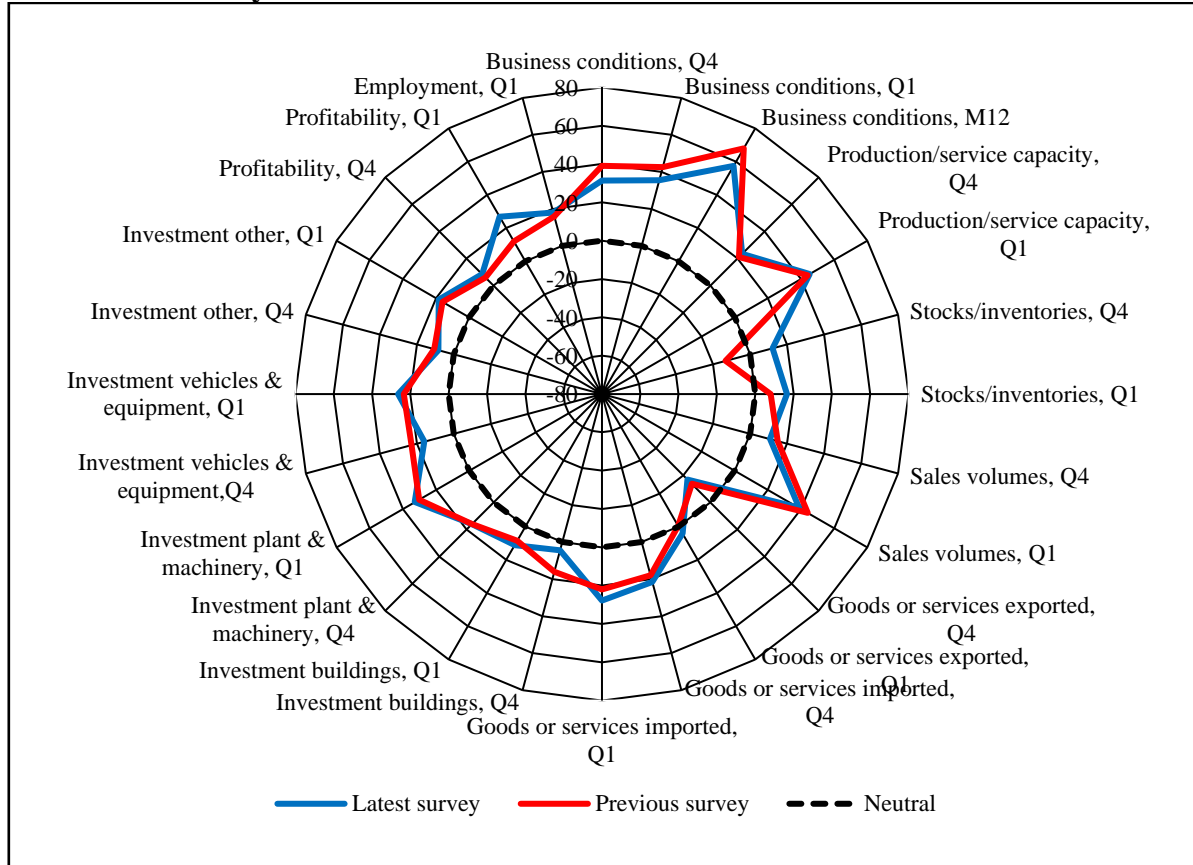


Note: The chart shows net balances on each sector’s expectations about economic performance from the second quarter of 2019 to the first quarter of 2020 and the 12 months period to December 2020. The net balances are weighted by each sector’s relative share in GDP. For example, for a sector with (P+N) 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 $[(P-N)/P+N] \times 100 \times Z$.

2.3 Business conditions are perceived to improve in the first quarter of 2020, and become even better in the twelve-month period to December 2020 (Chart 2). Firms anticipate improvements in capacity/resource utilisation; production/service capacity; stocks/inventories; exports of goods and services; profitability; employment; and investment in plant and machinery, buildings, vehicles and equipment in the first quarter of 2020. These, in combination with expectations of increased growth in the trade, hotels and restaurant and mining sectors contribute to the improved expectations relating to the overall business conditions.

¹ Other investments refers to any investments apart from the ones listed.

Chart 2: Summary of Economic Conditions

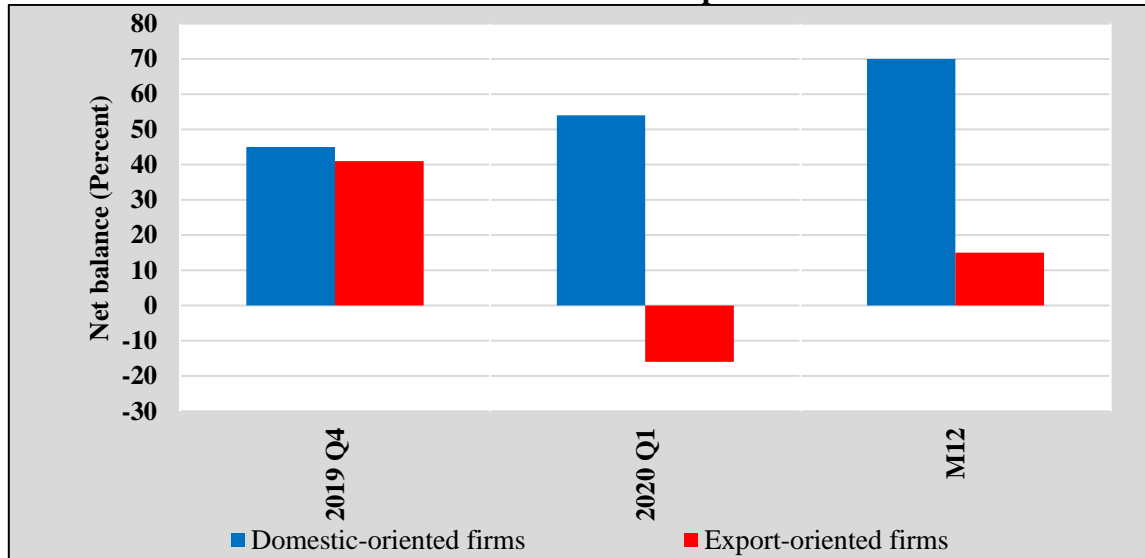


Notes: The chart summarises firms' expectations about business conditions. The blue line represents the results of the December 2019 Survey while the red line represents the results of the September 2019 survey. The black dashed line is the static position, representing unchanged expectations. The net 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 current survey, along the blue line, are interpreted as follows: Q4 denotes perceptions about business conditions in the fourth quarter of 2019, Q1 represents expectations about business conditions for the first quarter of 2020, while M12 depicts the perceived business conditions for the twelve-month period from January 2020 to December 2020. Similarly, the red line denotes perceptions about business conditions as envisaged in the previous survey.

- 2.4 As indicated in Chart 3, the domestic market-oriented firms' optimism improves in both the first quarter of 2020 and the twelve-month period to December 2020 (M12) compared to the fourth quarter of 2019. Confidence in the domestic market-oriented firms is mainly driven by the trade, hotels and restaurants, transport and communications and the finance and business services sectors. Export market-oriented firms' optimism decreases in the first quarter of 2020 compared to the fourth quarter of 2019, but improves for the twelve-month period to December 2020 (M12).

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

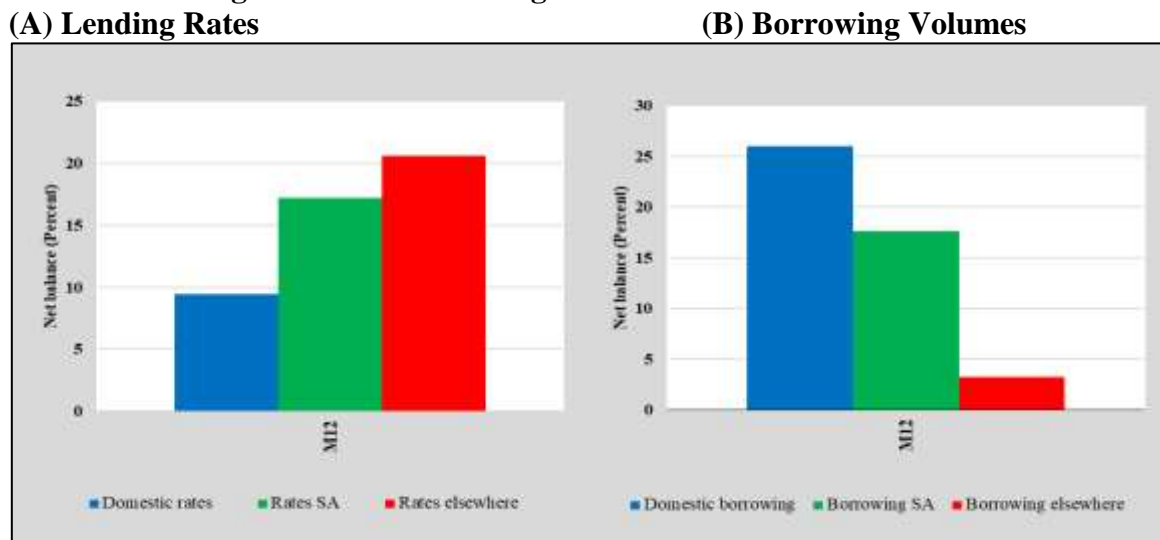


3. Expected Lending Rates and Volume of Borrowing

Domestic lending rates and borrowing volume are expected to rise in the year to December 2020

- 3.1 Firms expect the lending rates and the volume of borrowing from all markets (domestic, South African and elsewhere²) to increase in the twelve-month period to December 2020 (Chart 4). Some firms prefer borrowing domestically, mainly due to the anticipated relatively lower lending rates in Botswana. Notwithstanding the expected increase in lending rates, the anticipated increase in borrowing volumes is consistent with the expected rise in investment, especially in plant and machinery.

Chart 4: Lending Rates and Borrowing Volumes

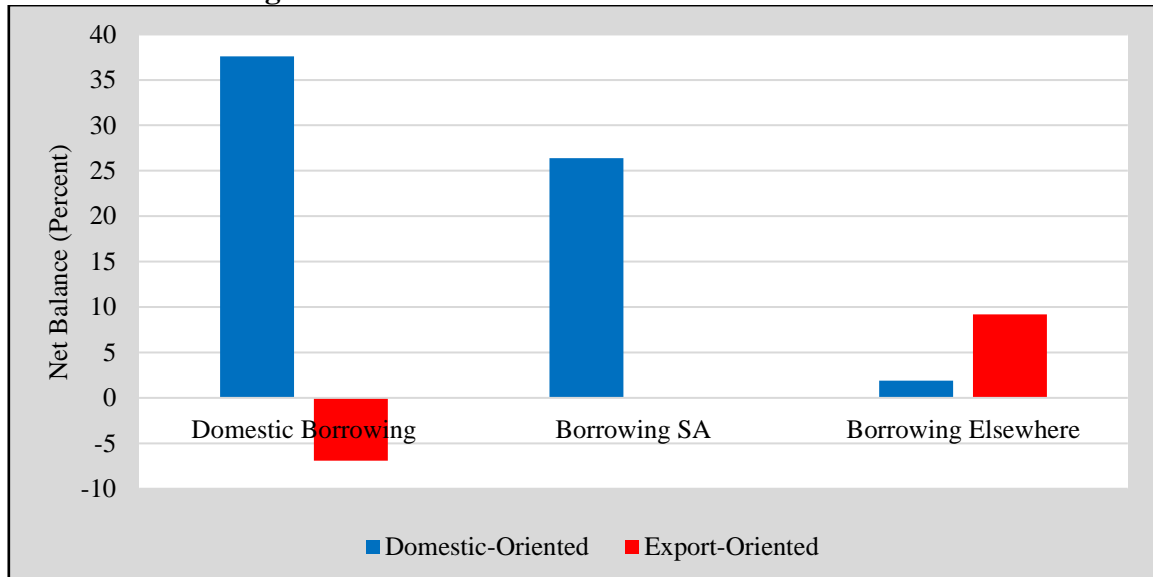


- 3.2 Firms in the domestic and export-oriented markets perceived access to credit to be tight in the fourth quarter of 2019, mainly because they consider the domestic interest rates to be high. Some firms, especially those targeting the domestic market, prefer to borrow from

² 'Elsewhere' refers to any market other than Botswana and South Africa.

the domestic market in 2020. Conversely, export-oriented firms prefer to borrow from the international markets other than South Africa (Chart 5). They also intend to reduce their borrowing from the domestic market.

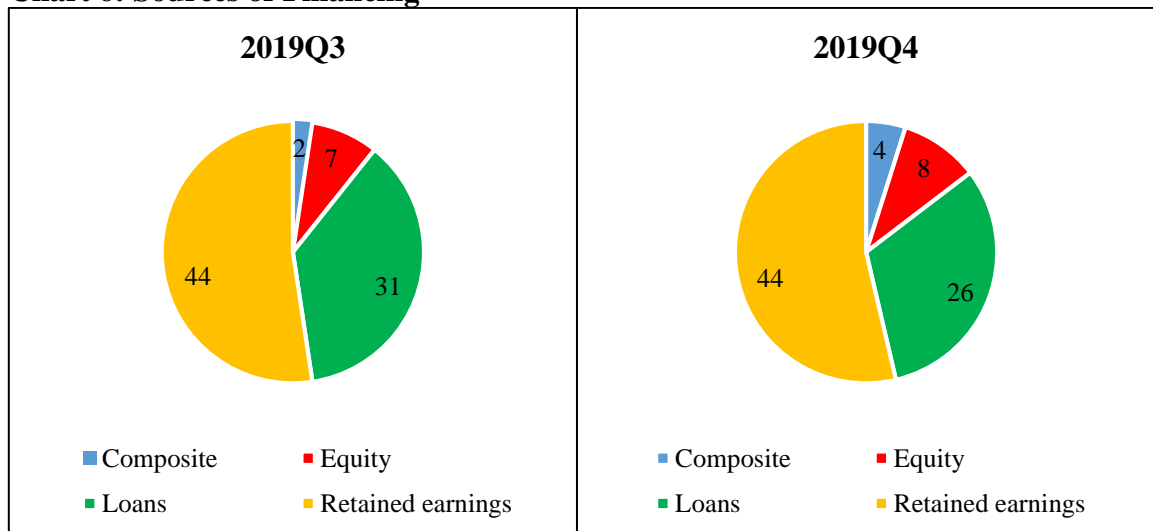
Chart 5: Borrowing Preference of Firms



3.3 About 68 percent of the firms cited the availability and accessibility of the required loan products as the basis for their borrowing decisions. Meanwhile, affordability of credit facilities influenced borrowing plans of 32 percent of businesses irrespective of whether funds would be sourced from Botswana or abroad.

3.4 As in the previous survey, 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 prevalent among the manufacturing, and trade, hotels and restaurants, and the transport and communications sectors. Conversely, most of the firms in finance and business services, and the construction sectors plan to fund their businesses through loans.

Chart 6: Sources of Financing



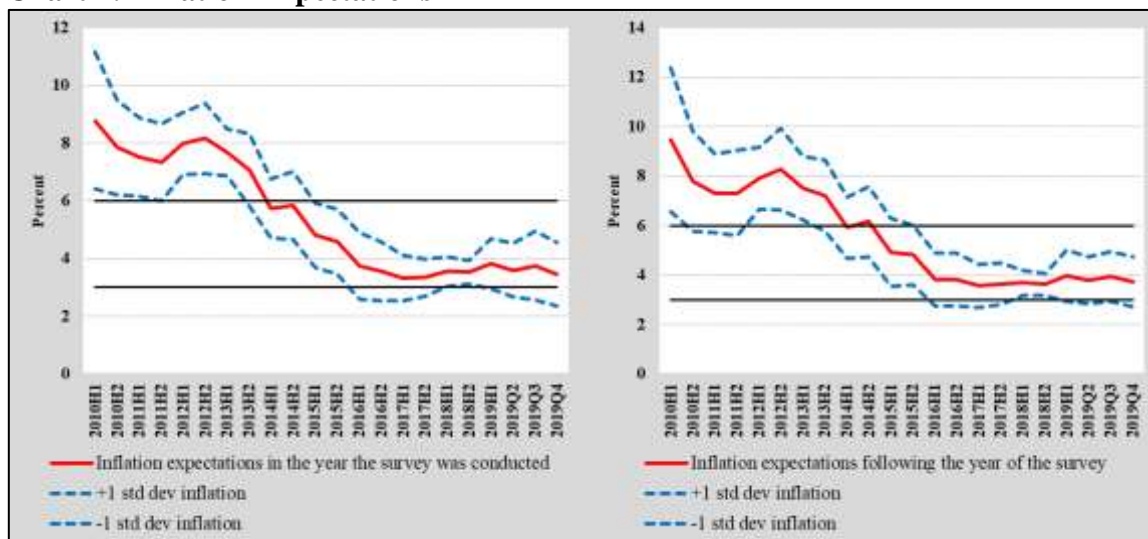
Note: Composite refers to a preference for a combination of more than one source of financing (e.g. retained earnings and loans).

4. Price Developments and Inflation

Cost pressures expected to decrease in the first quarter of 2020

- 4.1 Overall, firms expect cost pressures to be subdued in the first quarter of 2020, attributable to the expected downward pressure on rentals, wages and transport costs. This is despite the expected rise in public sector wages in April 2020, with potential upward pressure on private sector wages. 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 expected inflation despite the noticeable divergence in the past four surveys. Firms' inflation expectations for 2019 and 2010 average 3.5 percent and 3.7 percent respectively, 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 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).

5. Factors Affecting Business Conditions

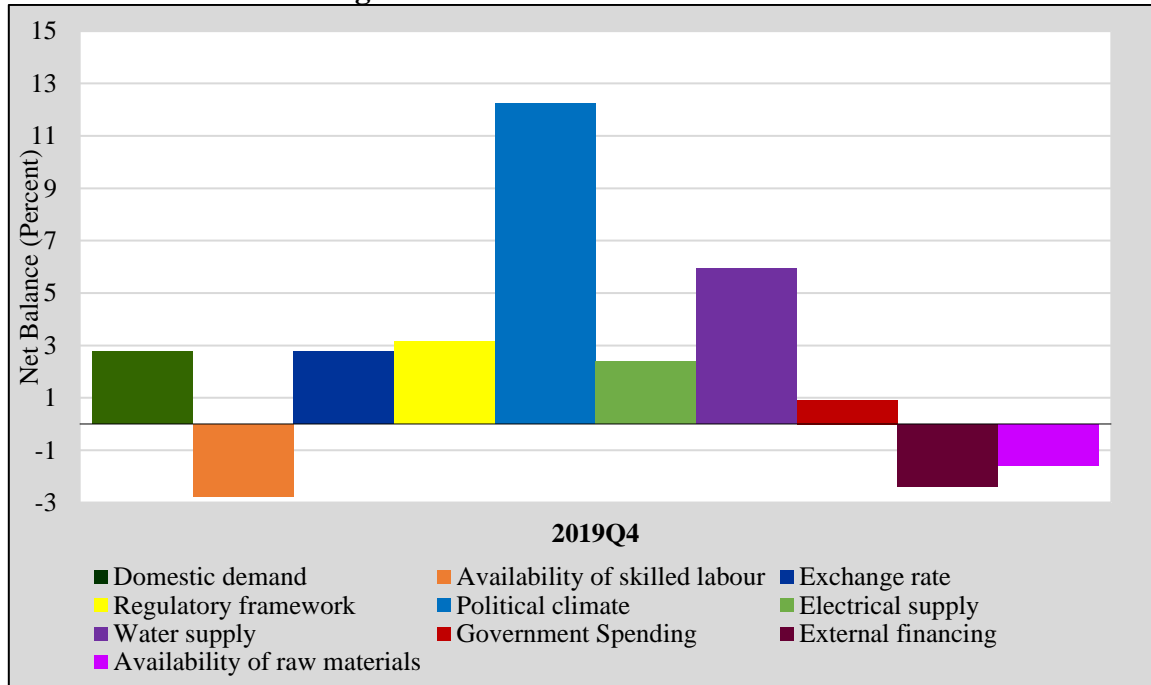
Unavailability of skilled labour is perceived to be a major challenge to doing business

- 5.1 Unavailability of skilled labour was cited as the greatest challenge facing businesses in the fourth quarter of 2019, particularly in the manufacturing, trade, hotels, restaurants, transport and communications sectors³, arising from the reported difficulties experienced in recruiting foreign skilled labour (Chart 8). The second major business impediment cited is difficulty in accessing financing from abroad, commonly mentioned by domestic market-oriented firms across various sectors. Furthermore, a number of firms (predominantly firms in the manufacturing sector) cited shortage of raw materials as the greatest challenge to their business operations. On the positive side, the local political climate, domestic demand and the current regulatory framework are viewed as being the most supportive factors to doing business in Botswana (Chart 8). Another observation is

³ The Trade, Hotels and Restaurants, and Transport and Communications Sectors are merged for ease of analysis since the two are interconnected.

that water and electricity sub-sectors reportedly contribute positively to economic activity, an improvement from the recent past. Meanwhile, 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 were less confident about business conditions in the fourth quarter of 2019 compared to the previous quarter. However, business conditions are expected to improve in the rest of the survey horizon, consistent with the anticipated improvements in capacity/resource utilisation; production/service capacity; stocks/inventories; exports of goods and services; profitability; employment; and investment in; plant and machinery, buildings, vehicles and equipment, and ‘other’. Firms expect the economy to grow by 3.7 percent in 2019, marginally higher than MFED’s 3.6 percent projection. Furthermore, on average, firms expect inflation to be 3.5 percent in 2019 and 3.7 percent in 2020, which is consistent with the Bank’s projection that inflation will remain within the objective range of 3 - 6 percent in the medium term.