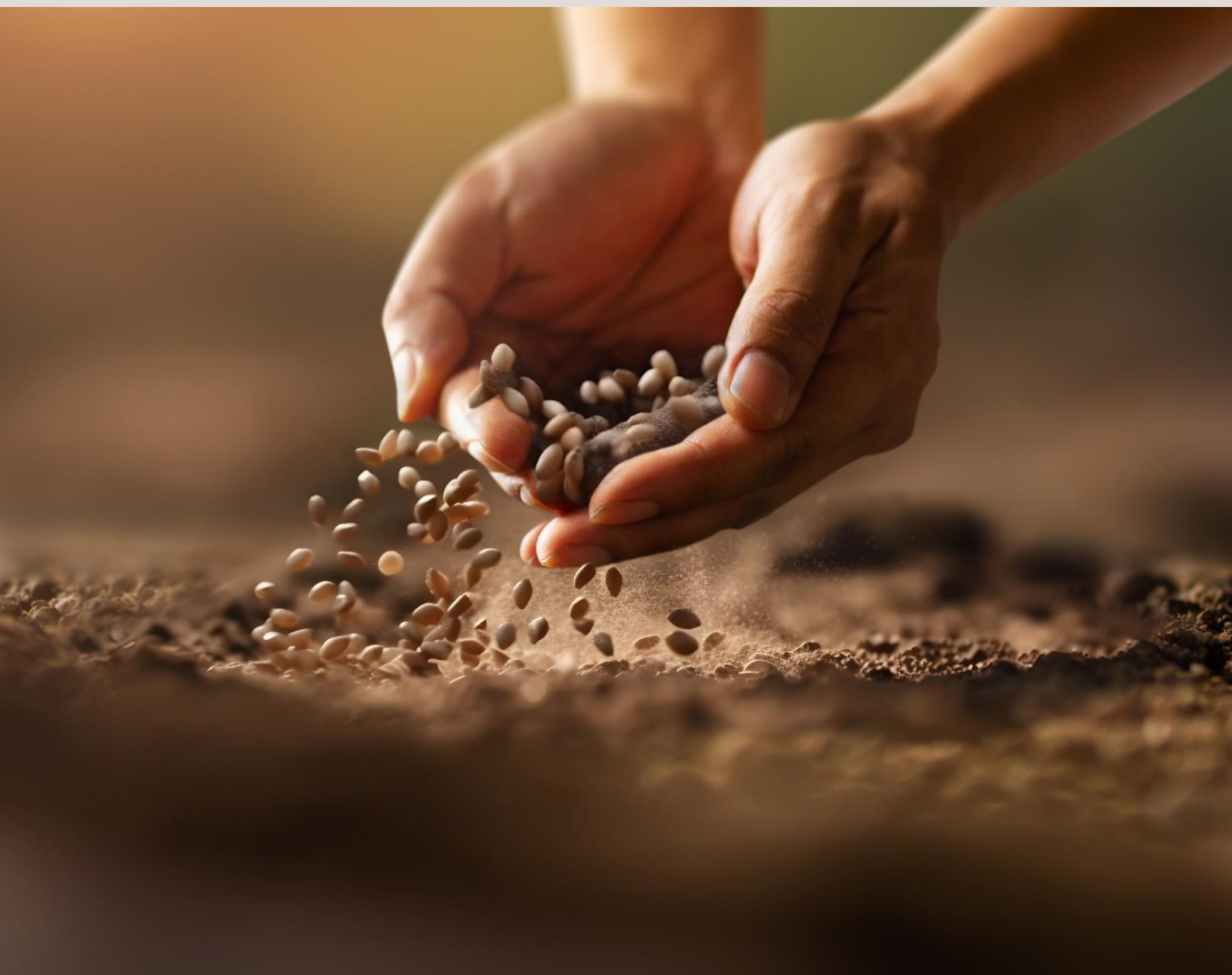




# THE QUARTELY BUSINESS EXPECTATIONS SURVEY

DECEMBER | 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 December 2024 BES report presents business expectations about the fourth quarter of 2024 (M0), the first quarter of 2025 (M3); and the 12-month period from January 2025 to December 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; 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 52 percent compared to 62 percent in the September 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 growth in gross domestic product (GDP) and inflation are quantitative and are consolidated into simple averages.

### Highlights of the Survey Results

- 1.5 The results of the current BES reveal that firms were less optimistic about business conditions in the fourth quarter of 2024 compared to the third quarter of 2024. However, firms in sectors such as Mining and Quarrying; Finance, Professional and Administrative Activities; and Manufacturing anticipated an improvement in output. Furthermore, firms anticipated lending interest rates to decrease across all markets, in line with the expected monetary policy easing, globally. Moreover, firms expected some cost pressures to decrease in the fourth quarter of 2024. Firms also expected inflation to remain within the 3 - 6 percent objective range in 2024.

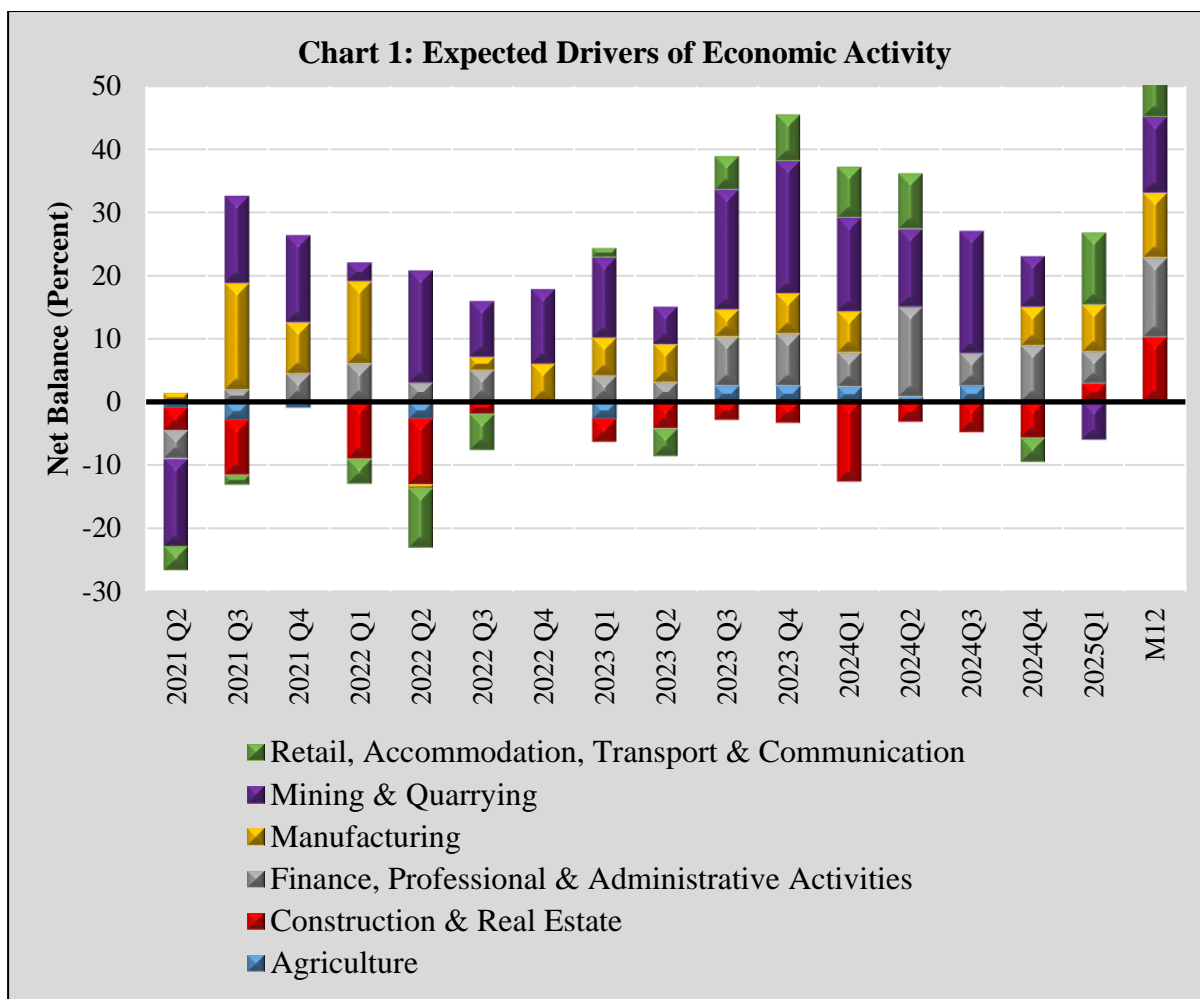
## 2. **Business Conditions and Economic Performance**

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

- 2.1 Firms expected overall output to expand by 2.3 percent in 2024, which is higher than the 1 percent growth forecast by the International Monetary Fund for the same period. However, extrapolation from the first three quarters of the year and monthly economic indicators for the fourth quarter suggests a potential economic contraction in 2024. Furthermore, firms anticipated GDP growth of 1.7 percent in the fourth quarter of 2024 and 2.6 percent in the first quarter of 2025.
- 2.2 Notably, firms in the Mining and Quarrying; Finance, Professional and Administrative Activities; and Manufacturing sectors were optimistic about business conditions in the fourth quarter of 2024, while those in the Agriculture sector were neutral (Chart 1). However, firms in the Construction and Real Estate and Retail, Accommodation, Transport and Communications sectors were pessimistic about economic growth prospects.
- 2.3 Looking ahead, all sectors were optimistic about the first quarter of 2025 and the year to December 2025, except the Mining and Quarrying sector, which was pessimistic, and the Agriculture sector, which remained neutral. The pessimism in the Mining and Quarrying sector for the first quarter of 2025 may be attributable to a combination of factors, such as the global decrease in demand, and economic uncertainty associated with geopolitical conflicts, as well as competition from other luxury goods. Meanwhile, optimism in other sectors can be attributed to government interventions aimed at supporting economic activity, including reforms<sup>1</sup> to further improve the business environment.

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<sup>1</sup> These include continuation of the Economic Reform and Transformation Plan, as well as infrastructure projects and initiatives announced in the 2024 State of the Nation Address.

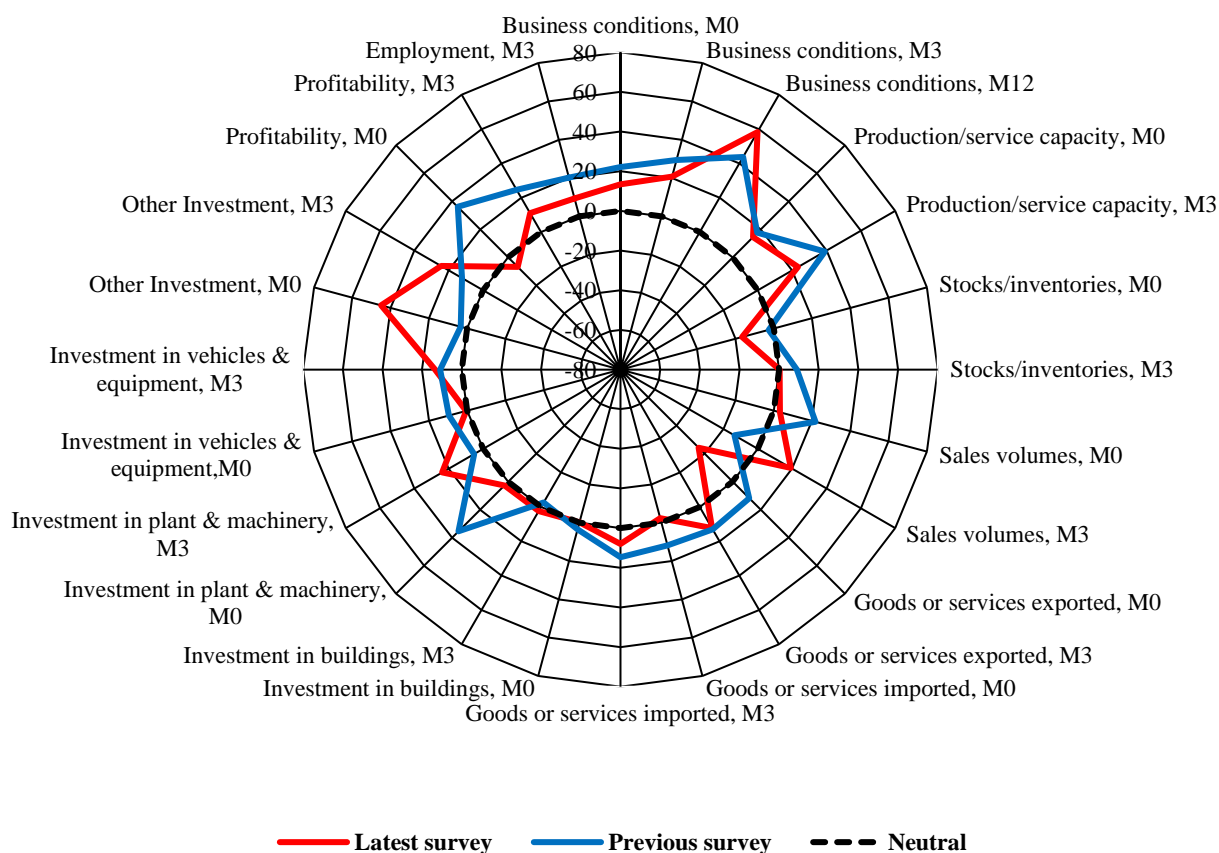


Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector's economic performance expectations for the fourth quarter of 2024 to M12 (the period from January 2025 to December 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  $[(P-N)/P+N] \times 100 \times Z$ .
- 2.4 Overall, firms led by the Mining and Quarrying; Finance, Professional and Administrative Activities; and Manufacturing sectors expected business conditions to remain positive in the fourth quarter of 2024 (Chart 2), although they were less optimistic than in the previous period (Q3 2024). The reduced level of optimism in the fourth quarter of 2024 (current period) is reflected in the anticipated decrease in inventory levels; imports and exports of goods and services; production; profitability; employment; as well as investments mainly due to the weaker global demand and uncertainty. Furthermore, the limited fiscal space and less-than-optimal performance of the Government Accounting and Budgeting System (GABS), which continues to disrupt business operations, could be adding to the reduced optimism by firms in the current period. However, optimism improves for the first quarter of 2025 and 12-month period to December 2025.

**Chart 2: Summary of Economic Conditions**

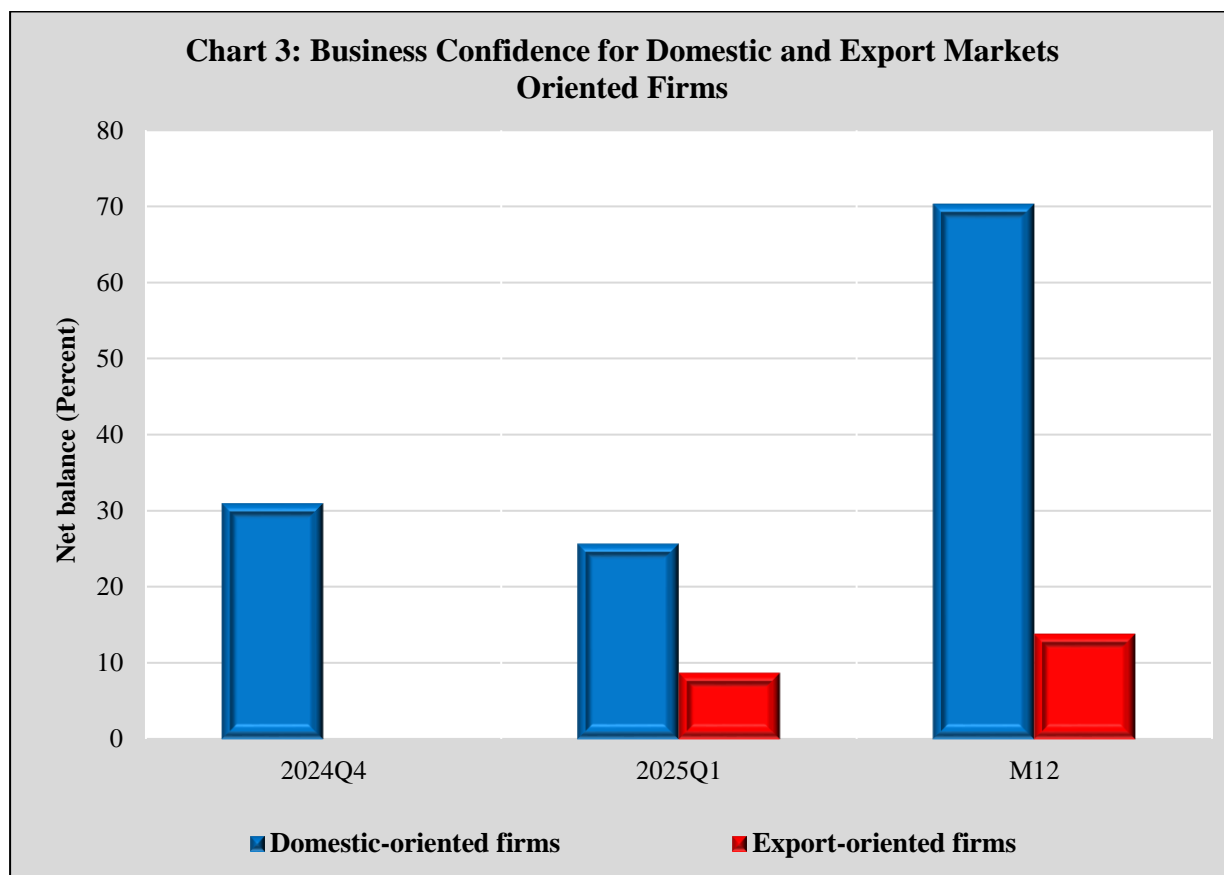


Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the December 2024 Survey, while the red line represents the results of the September 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 fourth quarter of 2024, M3 represents expectations about business conditions for the first quarter of 2025, while M12 depicts the perceived business conditions for the 12-month period from January 2025 to December 2025.
- 2.5 Chart 3 shows that confidence among domestic market-oriented firms reduces in the first quarter of 2025 but improves markedly for the whole of 2025 (M12) compared to the fourth quarter of 2024. This trend is consistent with the anticipated domestic economic recovery and accommodative monetary conditions, going forward. Confidence among domestic market-oriented firms is mainly driven by firms in the Finance and Professional and Administrative Activities; Retail and Accommodation and Transport and Communications; and Construction and Real Estate sectors.
- 2.6 Meanwhile, export market-oriented firms were neutral about business conditions in the fourth quarter of 2024, possibly reflecting the continued global economic uncertainty.

However, their level of optimism slightly rises in the first quarter of 2025 as well as the entire year.

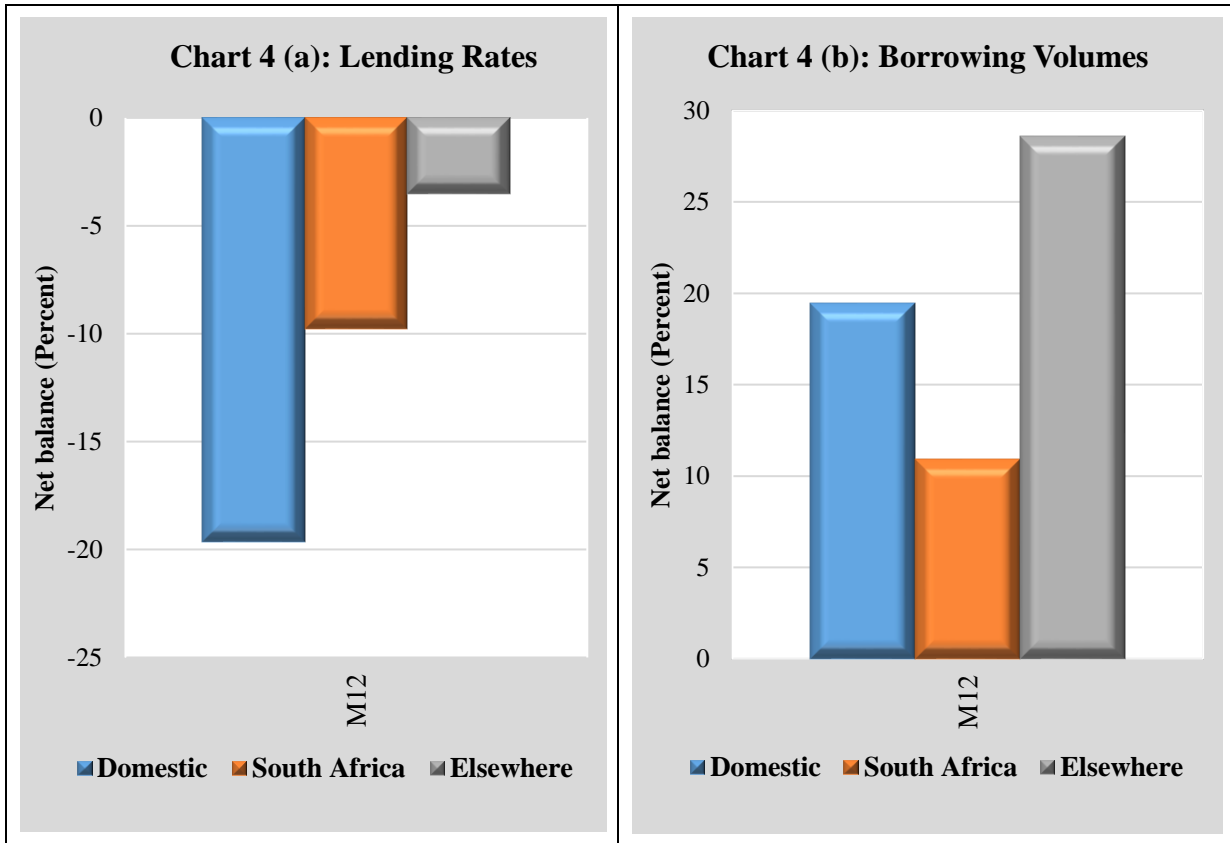


Source: Bank of Botswana

### 3. Lending Rates and Borrowing Volumes

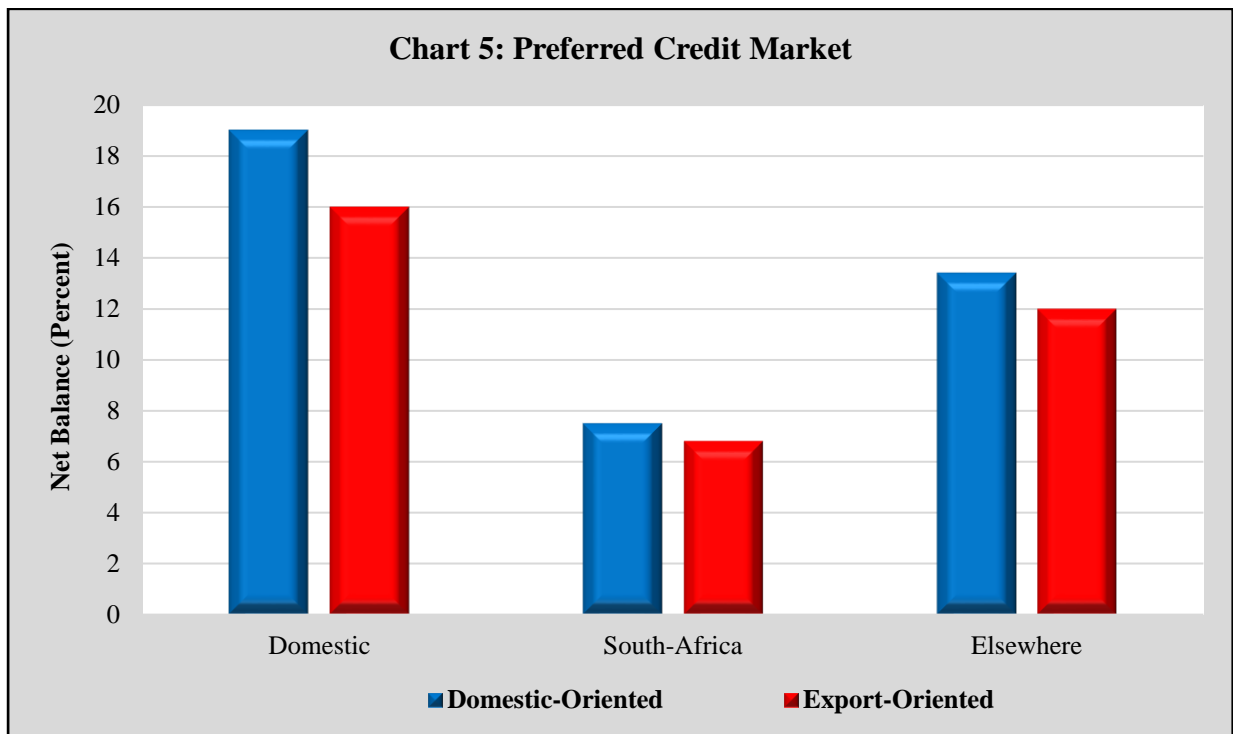
#### **Expectations of decrease in lending interest rates and increase in borrowing volumes across all markets in 2025**

- 3.1 Firms expect lending interest rates to decrease in all markets (domestic, South Africa and elsewhere) as indicated by the negative net balances (Chart 4a) in 2025. Firms also anticipate an increase in the volume of borrowing from all markets in 2025, as shown by the positive net balances in Chart 4b. The expected decrease in interest rates and increase in borrowing volume is consistent with modest inflation resulting in maintenance of accommodative monetary policy both domestically and globally.



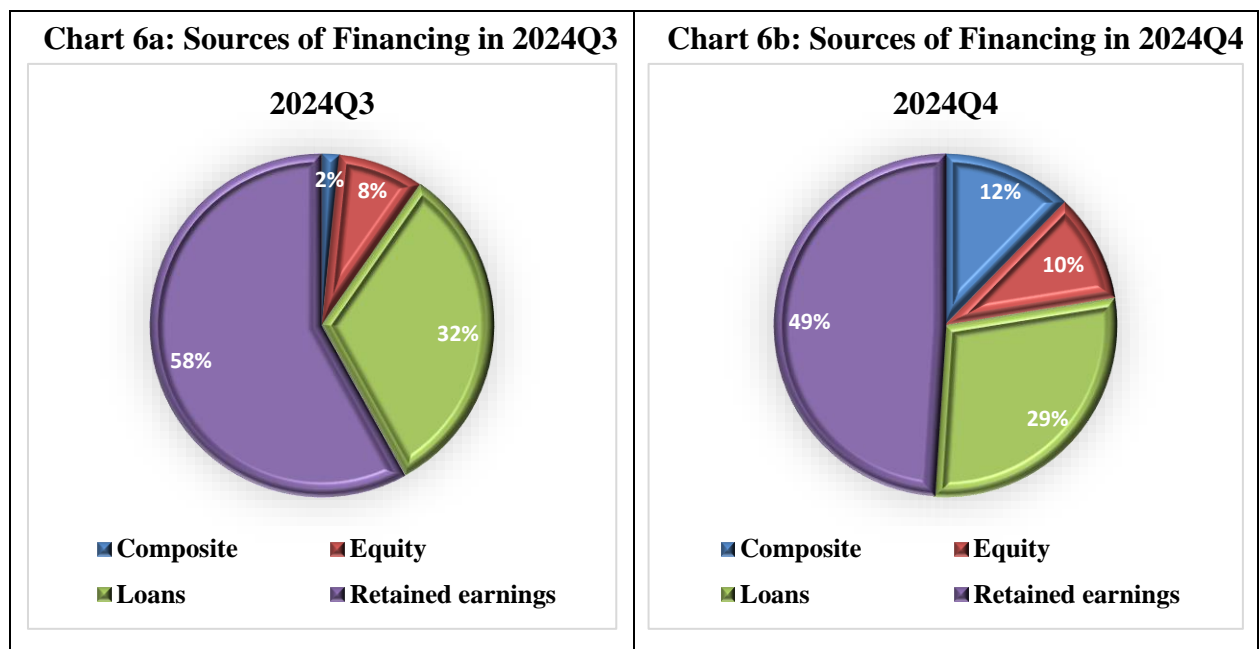
Source: Bank of Botswana

3.2 Most domestic market-oriented firms preferred borrowing locally (in Botswana) during the fourth quarter of 2024 (Chart 5). Likewise, export market-oriented firms preferred borrowing locally.



Source: Bank of Botswana

- 3.3 Approximately 45 percent of the surveyed firms indicated that their choice of credit market was mainly based on accessibility of appropriate credit facilities, while 22 percent indicated that their borrowing decisions were influenced by availability of suitable loans. Meanwhile, 20 percent of the firms mentioned a combination of factors, such as accessibility, availability, or affordability of the required loan products as influencing their preferred credit market, while 13 percent cited affordability of credit as a determinant of where to borrow.
- 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, composite methods (a combination of financing sources) and equity, in that order (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

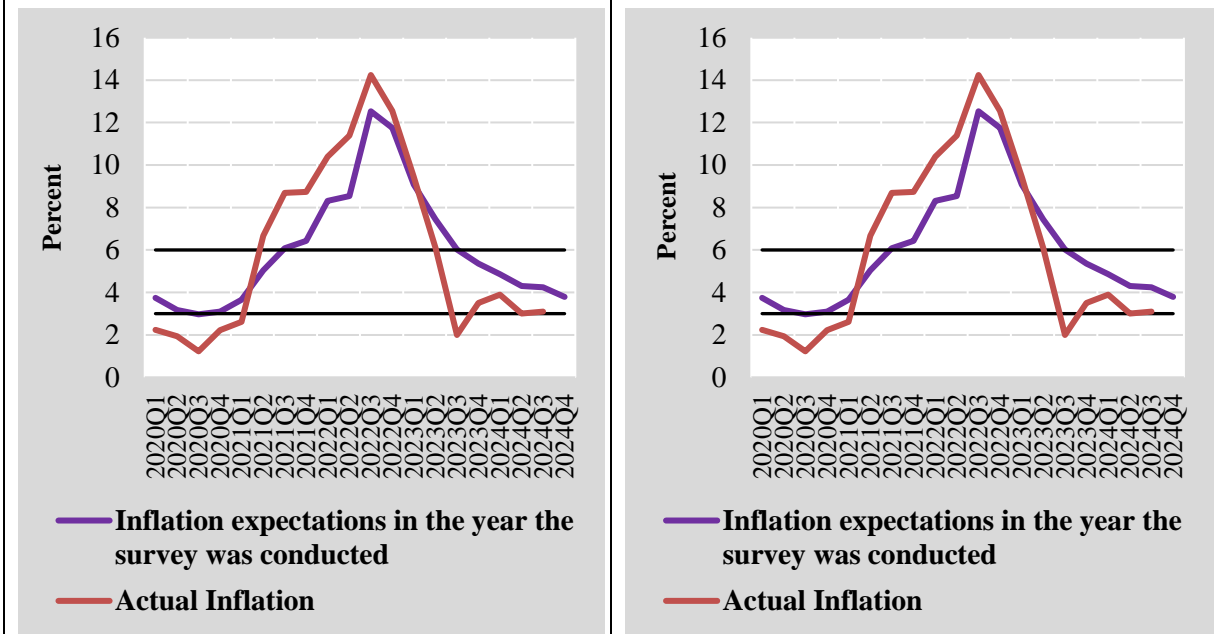
#### 4. Price Developments and Inflation

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

- 4.1 Overall, firms expected cost pressures to decrease in the fourth quarter of 2024, mainly due to the anticipated relative reduction in input costs, particularly utilities. This expectation is also in line with moderating global inflationary pressures in both advanced and emerging market economies. Similarly, firms anticipated domestic inflation to be lower in 2024 compared to the previous survey, averaging 3.8 percent for 2024 (down from 4.2 percent in the previous survey) and 4.2 percent for 2025 (slightly up from 4.1 percent in the previous survey), thus remaining within the 3 – 6 percent objective range (Chart 7). This development suggests that inflation expectations were well anchored.



**Chart 7: Inflation Expectations**

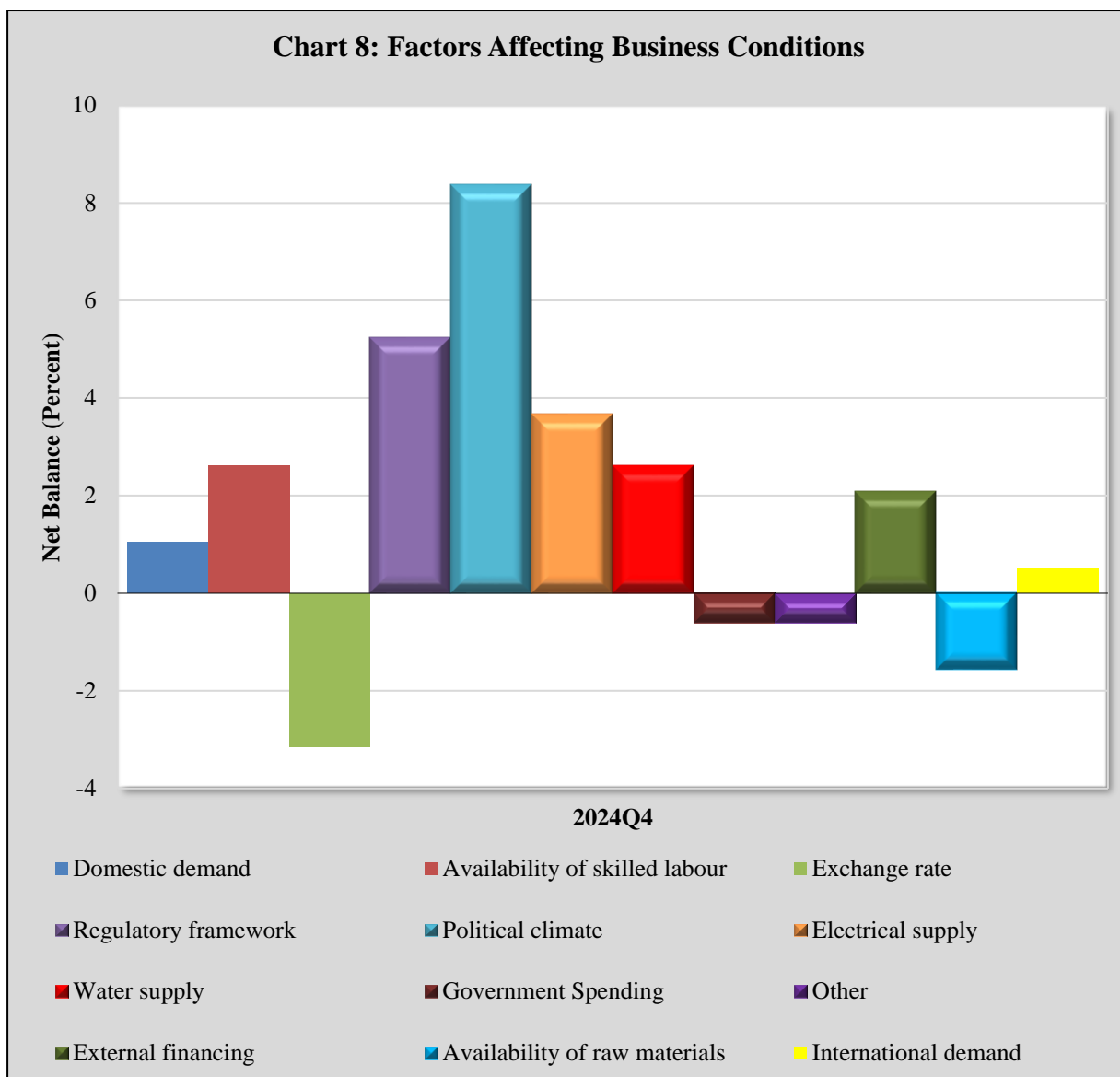


Source: Bank of Botswana

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 inflation in 2024, while those made in 2024 are about annual inflation in 2025.

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

5.1 In the fourth quarter of 2024, most firms in the Mining and Quarrying; Manufacturing; and Retail, Accommodation, Transport and Communications sectors (Chart 8) identified unfavourable exchange rate as a major factor adversely affecting their business operations, followed by unavailability of raw materials and inadequate government spending. Positively, stable political climate, an effective regulatory framework, adequate water and electricity supply, external financing, adequate domestic and international demand, and availability of skilled labour were considered supportive of doing business in Botswana in the fourth quarter of 2024 (Chart 8).



Source: Bank of Botswana

## 6. Conclusion

6.1 Overall, firms were less optimistic about business conditions in the fourth quarter of 2024. The reduced optimism is reflected in the anticipated decrease in inventory levels; imports and exports of goods and services; production; profitability; employment; as well as reduction in investments. These expectations were possibly a result of the limited fiscal space and less-than-optimal performance of GABS, which continues to disrupt business operations. However, business conditions are expected to improve in 2025. The expected improvement may reflect Government interventions to support economic activity, including reforms aimed at improving the business environment. Firms expected the domestic economy to expand by 2.3 percent in 2024 and inflation to average 3.8 percent in 2024 and 4.2 percent in 2025.