

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



SEPTEMBER 2024
BANK OF BOTSWANA

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 September 2024 BES report presents business expectations about the third quarter of 2024 (M0), the fourth quarter of 2024 (M3); and the 12-month period from October 2024 to September 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 62 percent compared to 66 percent in the June 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

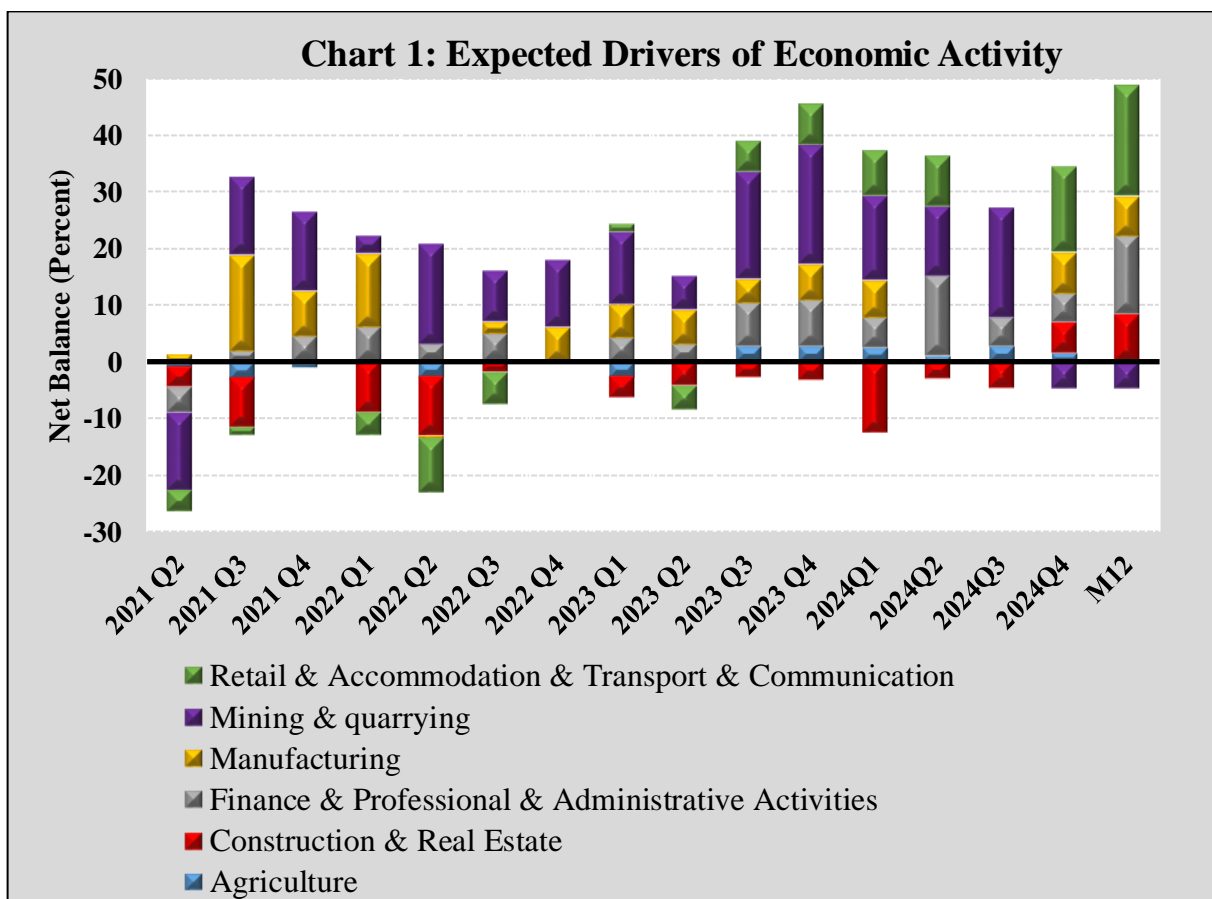
- 1.5 The results of the current BES indicate that firms are less optimistic about business conditions in the third quarter of 2024 compared to the second quarter of 2024. Firms expect inflation to remain within the Bank's 3 - 6 percent objective range in 2024. They also anticipate improvement in output of sectors, such as Mining and Quarrying; Finance, Professional and Administrative Activities; and Agriculture sectors, and this could have a positive impact on aggregate domestic economic performance in the third quarter of 2024. Furthermore, firms anticipate lending interest rates to decrease across all markets, in line with the expected monetary policy easing, globally. Moreover, firms expect cost pressures to decrease in the third quarter of 2024.

2. **Business Conditions and Economic Performance**

Anticipated moderate output growth in 2024

- 2.1 Firms expect overall output to expand by 2.8 percent in 2024, which is higher than the 1 percent growth forecast by the International Monetary Fund for the same period. In addition, extrapolation from the first two quarters of the year and monthly economic indicators for the third quarter also suggests subdued growth in 2024. Further, firms expect GDP to increase by 2.3 percent and 2.5 percent in the third and fourth quarters of 2024, respectively.
- 2.2 Notably, firms in the Mining and Quarrying; Finance, Professional and Administrative Activities; and Agriculture sectors were optimistic in the third quarter of 2024, while those in the Manufacturing; and Retail, Accommodation, Transport and Communications sectors were neutral (Chart 1). However, firms in the Construction and Real Estate sector were pessimistic about economic growth prospects.
- 2.3 Looking ahead, all sectors were optimistic about the fourth quarter of 2024 and the year to September 2025, except the Mining and Quarrying sector, which was pessimistic. The pessimism in Mining and Quarrying sector may be attributable to a combination of factors, such as the global decrease in demand and economic uncertainty associated with geopolitical conflicts and the growing popularity of synthetic diamonds. Meanwhile, optimism in other sectors may be attributed to government interventions aimed at supporting economic activity, including reforms¹ to further improve the business environment.

¹ These include continuation of the Economic Reform and Transformation Plan, as well as infrastructure projects and initiatives announced in the 2024 Budget Speech.



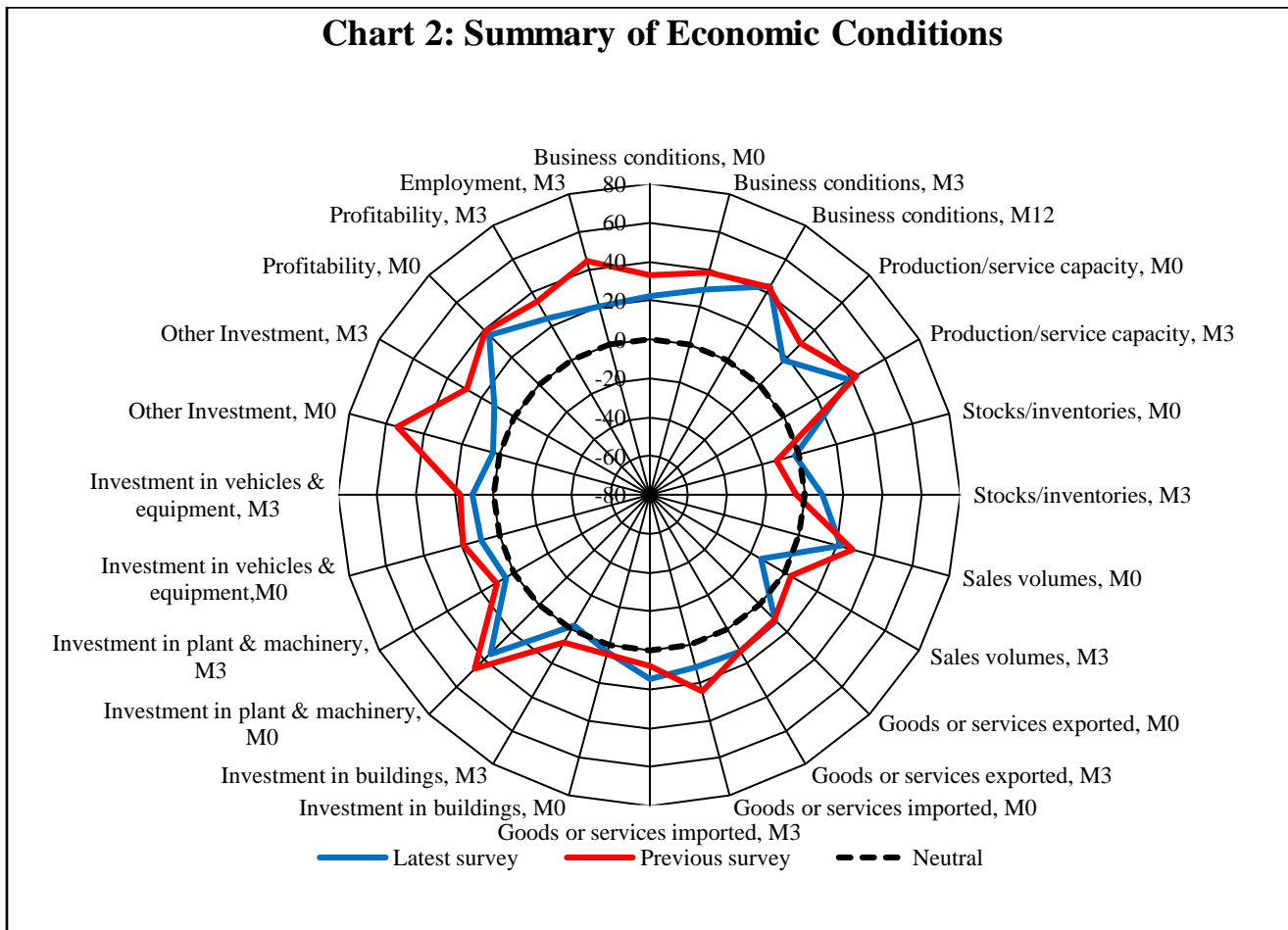
Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector's economic performance expectations for the third quarter of 2024 to M12 (the period from October 2024 to September 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 sectors expected business conditions to remain positive in the third quarter of 2024 (Chart 2), although they were less optimistic than in the previous period (Q2 2024). Firms' optimism, however, improved slightly for the fourth quarter of 2024 and 12-month period to September 2025. The reduced level of optimism in the current period is reflected in the anticipated deceleration in sales volumes; imports of goods and services; production; profitability; employment; as well as investments mainly due to the weaker global demand and uncertainty. Furthermore, the slow and muted impact of economic transformation initiatives so far, drought conditions 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.

Chart 2: Summary of Economic Conditions



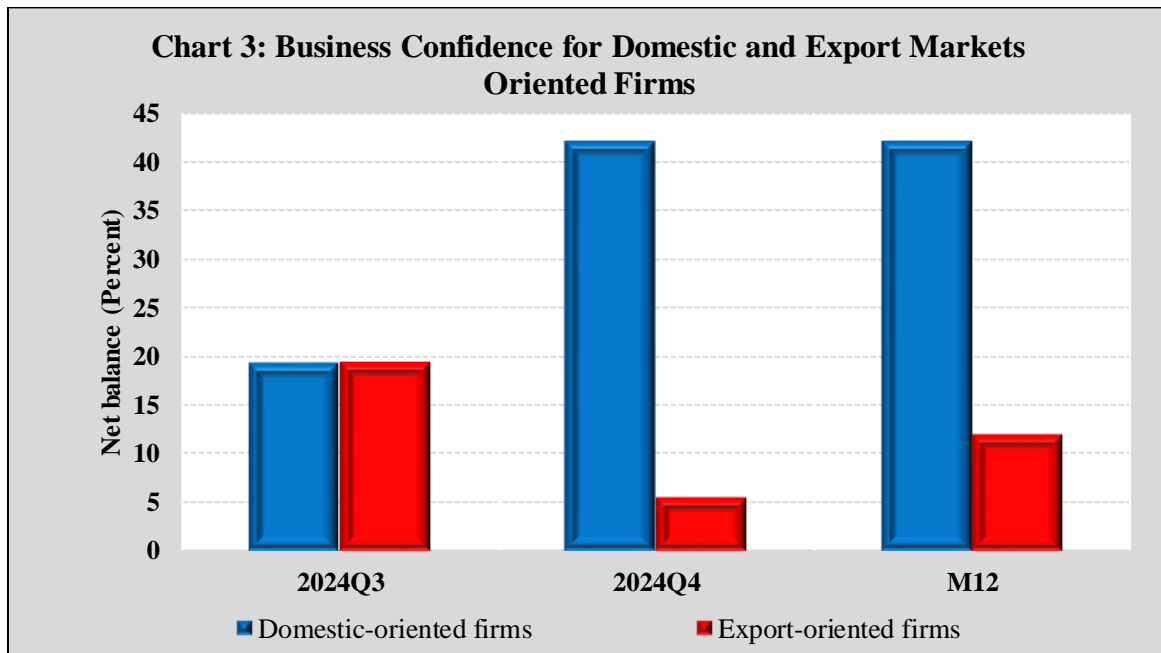
Source: Bank of Botswana

Notes:

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

2.5 Chart 3 shows that confidence among domestic market-oriented firms improves markedly in the fourth quarter of 2024 and in the twelve-month period to September 2025 (M12) compared to the third quarter, consistent with the anticipated domestic economic recovery and accommodative monetary conditions, going forward. Confidence in the domestic market-oriented firms is mainly driven by firms in the Finance and Professional and Administrative Activities; and Retail and Accommodation and Transport and Communications; and Construction and Real Estate sectors.

2.6 Meanwhile, export market-oriented firms are optimistic about business conditions in the third quarter of 2024. However, their level of optimism declines in the fourth quarter of 2024, possibly reflecting the continued global economic uncertainty and steadily rises in the 12-month period to September 2025.

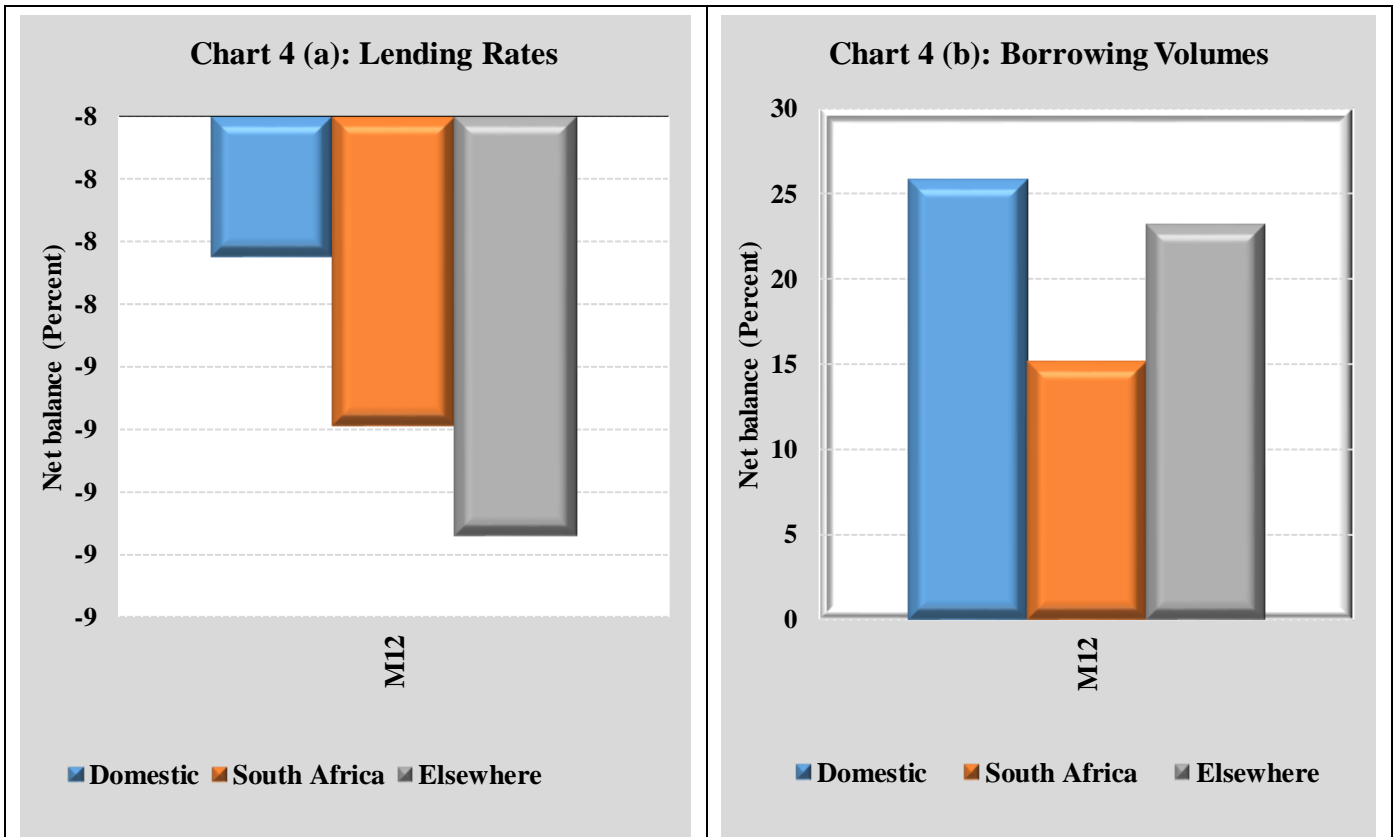


Source: Bank of Botswana

3. Lending Rates and Borrowing Volumes

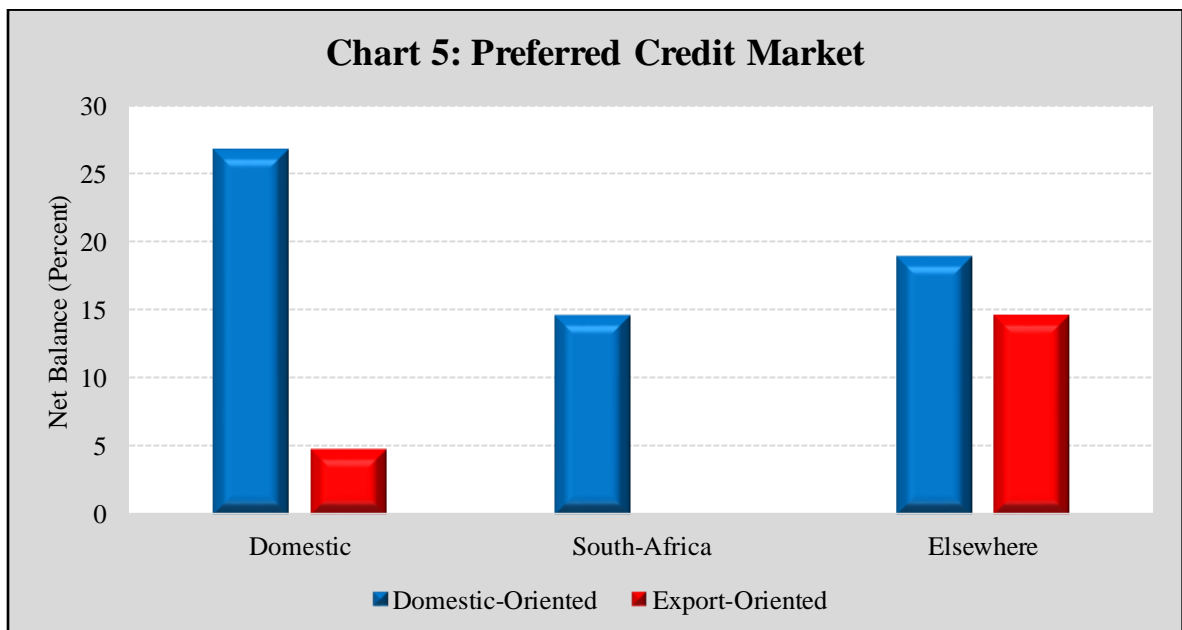
Expected decrease in lending interest rates and increase in borrowing volumes across all markets in the year to September 2025 (M12)

- 3.1 Firms expect lending interest rates to decrease in all markets (domestic, South Africa and elsewhere) as reflected in the negative net balances (Chart 4a) in the year to September 2025. Firms also expect an increase in the volume of borrowing from all markets in the 12-month period to September 2025, as depicted by the positive net balances in Chart 4b. The anticipated decrease in interest rates and increase in borrowing volume is consistent with the expected monetary policy easing both domestically and globally.



Source: Bank of Botswana

3.2 Most domestic market-oriented firms preferred borrowing locally (Botswana) in the third quarter of 2024, while few firms preferred to borrow from South Africa and elsewhere (Chart 5). Conversely, export market-oriented firms preferred borrowing from elsewhere, with a few preferring to borrow domestically and none from South Africa.

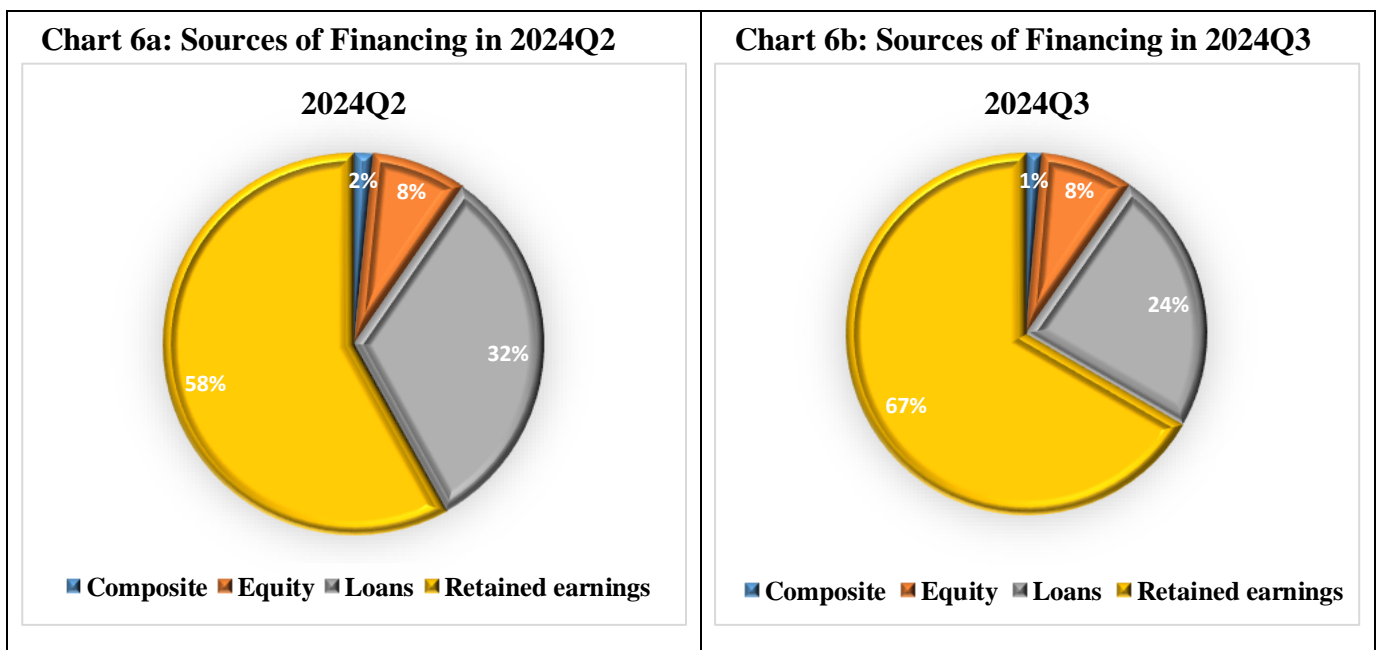


Source: Bank of Botswana

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 29 percent indicated

that their borrowing decisions were influenced by affordability of credit. Meanwhile, 13 percent of the firms cited availability of suitable loan products as a determinant of where to borrow, while the same proportion (13 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 and 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.



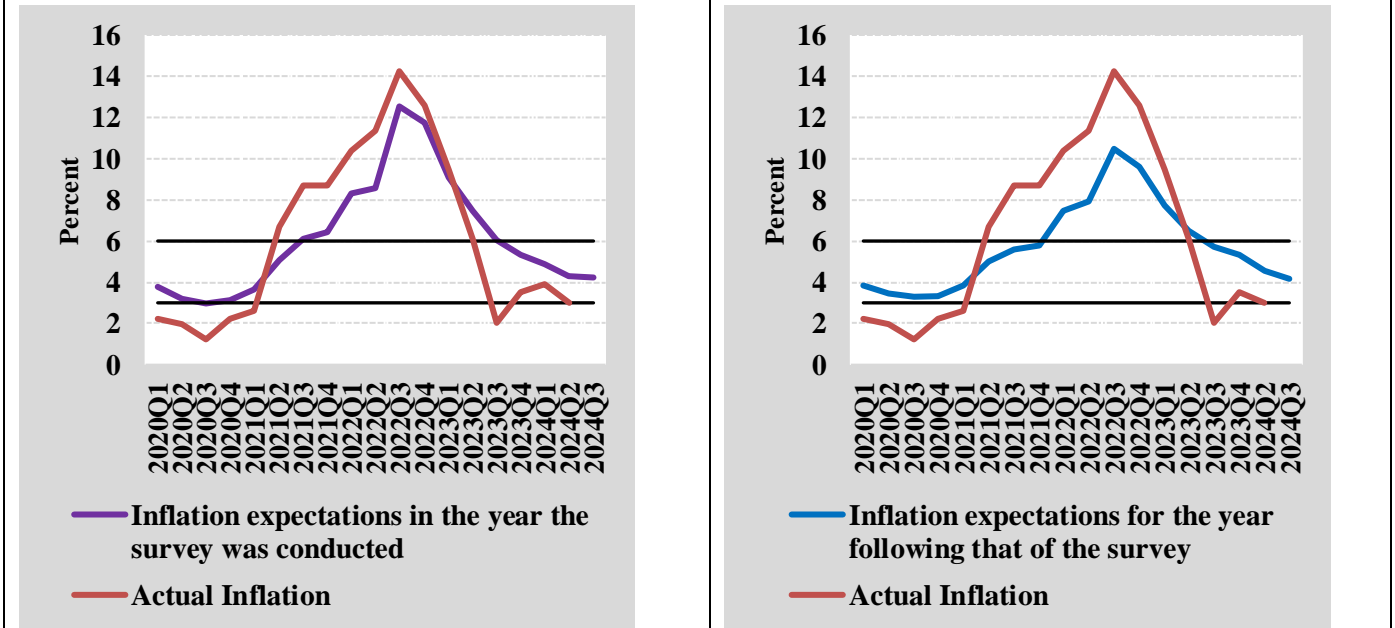
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to decrease in the third quarter of 2024

- 4.1 Overall, firms expect cost pressures to decrease in the third quarter of 2024, mainly due to the anticipated reduction in input costs, such as materials and transport. This is in line with moderating of global inflationary pressures in both advanced and emerging market economies due to the reduction in fuel prices. Similarly, firms expect domestic inflation to be lower compared to the previous survey, averaging 4.2 percent for 2024 (down from 4.3 percent) and 4.1 percent for 2025 (down from 4.6 percent), thus remaining within the 3 – 6 percent objective range (Chart 7). This development suggests that inflation expectations are well anchored.

Chart 7: Inflation Expectations

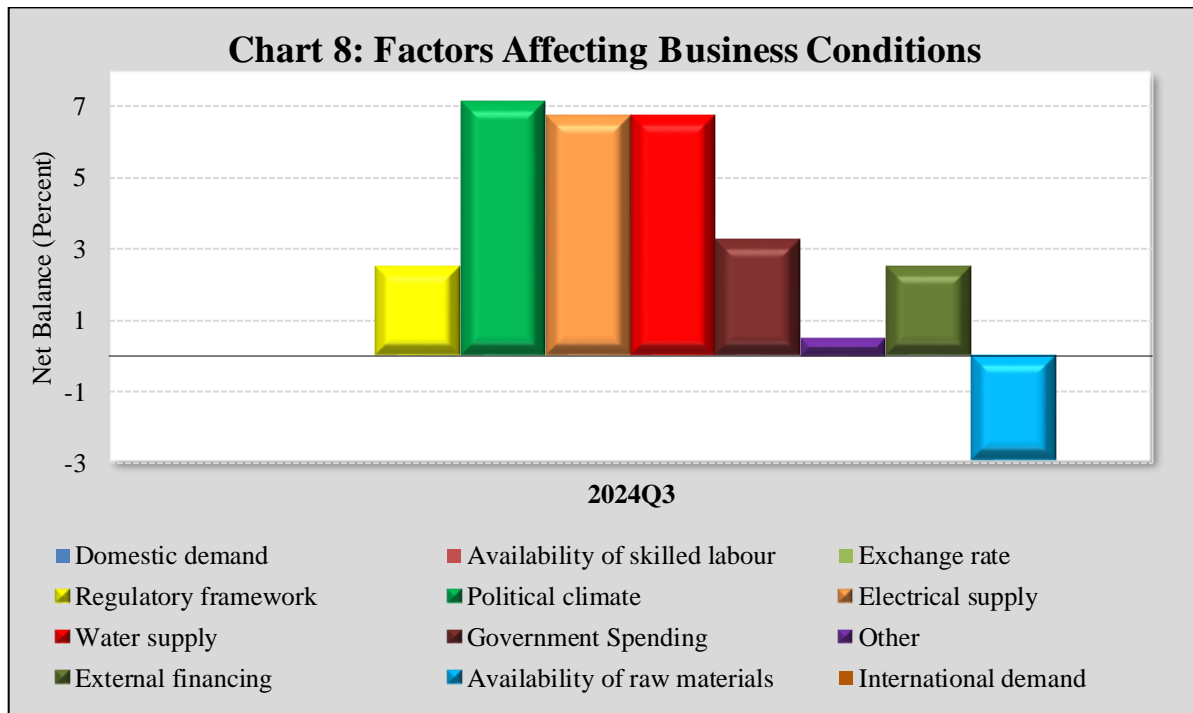


Source: Bank of Botswana

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

5. Factors Affecting Business Conditions in the Third Quarter of 2024

- 5.1 In the third quarter of 2024, most firms in the Retail, Accommodation, Transport and Communications; Manufacturing; and Construction and Real Estate sectors (Chart 8) identified unavailability of raw materials as a major factor affecting their business operations. Adequate water and electricity supply, a stable political climate, an effective regulatory framework, adequate government spending, external financing and other factors, were considered supportive for doing business in Botswana in the third quarter of 2024 (Chart 8).



Source: Bank of Botswana

6. Conclusion

- 6.1 Overall, firms were less optimistic about business conditions in the third quarter of 2024. The reduced optimism is reflected in the anticipated deceleration in sales volumes; imports of goods and services; production; profitability; employment; as well as reduction in investments. These expectations are possibly a result of slow and muted impact of economic transformation initiatives, drought conditions and less-than-optimal performance of the GABS, which continues to disrupt business operations. However, business conditions are expected to slightly improve in the 12-month period to September 2025. The expected improvement may reflect Government interventions to support economic activity, including reforms aimed at improving the business environment. Firms expect the domestic economy to expand by 2.8 percent in 2024 and inflation to average 4.2 percent in 2024 and 4.1 percent in 2025.