

THE QUARTERLY BUSINESS
EXPECTATIONS SURVEY
MARCH 2023



BANK OF BOTSWANA

1. Introduction

Description of the Survey

- 1.1 The quarterly Business Expectations Survey (BES), conducted by the Bank of Botswana (the Bank), collects information on perceptions of the domestic business community regarding the prevailing state of the economy and expectations during the survey period. In completing the survey, businesses respond to questions on, among others: the prevailing business climate; economic growth and inflation outlook; and business performance in the survey horizon. The survey coverage comprises the quarter in which the survey is conducted, also referred to as the current period, the subsequent quarter, and the next 12 months.
- 1.2 The March 2023 BES report presents business expectations about the current period (Q1:2023), the second quarter of 2023 (Q2:2023); and the 12-month period (M12) from April 2023 - March 2024 (Q2:2023 - Q1:2024).
- 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 as well as Administrative and Support Services sectors were merged for ease of analysis. The response rate for the current survey is 75 percent compared to 54 percent in the December 2022 survey.
- 1.4 The survey questions are mainly focused 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 by firms belonging to the same sector. Thus, by design, the survey responses are predominantly qualitative, but they provide valuable information to facilitate analysis and inform policy decisions. However, responses to questions relating to the expected level of gross domestic product (GDP) growth and inflation are quantitative and consolidated into simple averages.

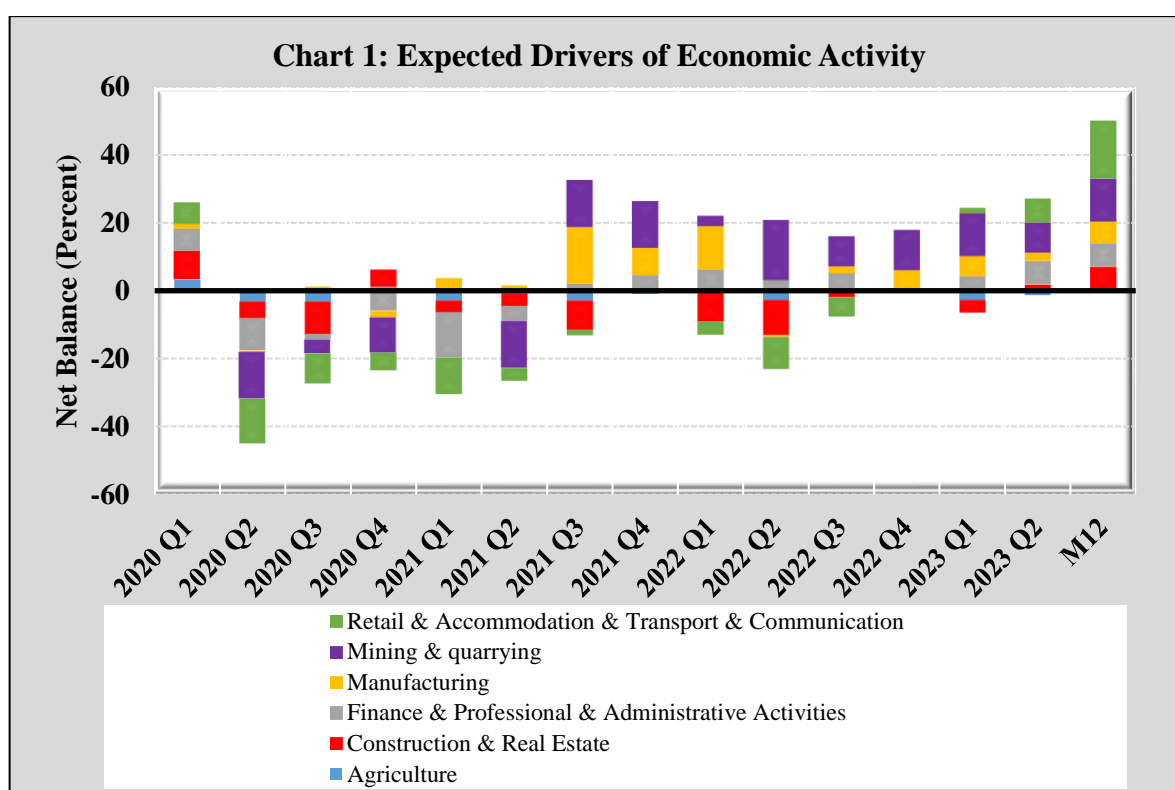
Highlights of the Survey Results

- 1.5 The results of the current BES indicate that firms' level of optimism about business conditions is the same as in the previous survey (fourth quarter of 2022). Firms anticipate tight access to credit across all markets (Domestic, South Africa and Elsewhere), as central banks continue to increase policy interest rates and/or maintain the high interest rates amid elevated inflation. Firms expect cost pressures to be subdued in the first quarter of 2023, attributable to the relatively lower fuel prices, and expect inflation to decline though remaining above the Bank's 3 – 6 percent objective range in 2023 and 2024. Overall, the anticipated improvement in Mining and Quarrying; Manufacturing; and Retail Accommodation, Transport and Communications sectors is expected to have a positive impact on domestic economic performance.

2. Business Conditions and Economic Performance

Moderate increase in output growth in 2023

- 2.1 Firms expect overall output to expand by 4 percent in 2023, equal to the projection by the Ministry of Finance and in line with 4.1 percent estimated by the International Monetary Fund for the same period. On quarterly basis, in general, firms expect GDP to increase by 3.1 percent and 3.2 percent in the first and second quarters of 2023, respectively.
- 2.2 Notably, firms in the Mining and Quarrying; Manufacturing; Finance, Professional and Administrative Activities; and Retail Accommodation, Transport and Communications sectors were optimistic about economic growth prospects in the first quarter of 2023, while those in the Construction and Real Estate; and Agriculture were pessimistic (Chart 1). Positive sentiments in the Mining and Quarrying sector mainly reflect the expected continued favourable conditions in the global diamond market and elevated prices in other commodity markets. Meanwhile, all sectors (except Agriculture) are optimistic about the second quarter of 2023 and the year ending March 2024, possibly supported by government interventions to support economic activity, including through implementation of the Economic Recovery and Transformation Plan and the potentially expansionary two-year Transitional National Development Plan.

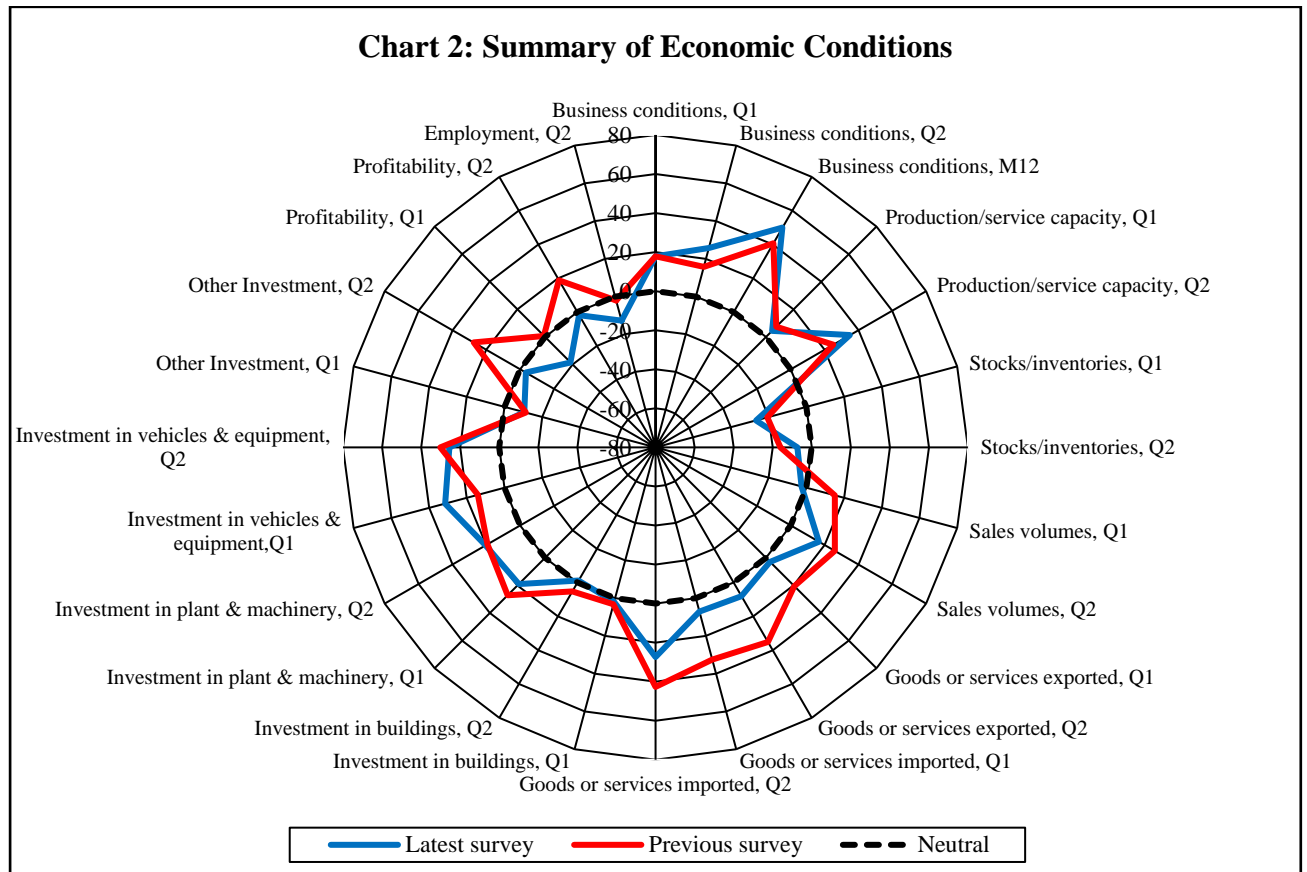


Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector's economic performance expectations for the first quarter of 2020 to M12 (the period from April 2023 to March 2024).
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 $[(P-N)/(P+N) \times 100 \times Z]$.

2.3 Overall, firms expect business conditions to remain positive in the first quarter of 2023 (Chart 2). They anticipate improvements in investment in vehicles and equipment, in the first quarter of 2023 compared to the fourth quarter of 2022. This, in combination with expectations of increased growth in the Mining and Quarrying; Manufacturing; Finance, Professional and Administrative Activities; and Retail, Accommodation, Transport and Communications sectors, contribute to the improved confidence about overall business conditions in the second quarter of 2023 and in the 12-months to March 2024.

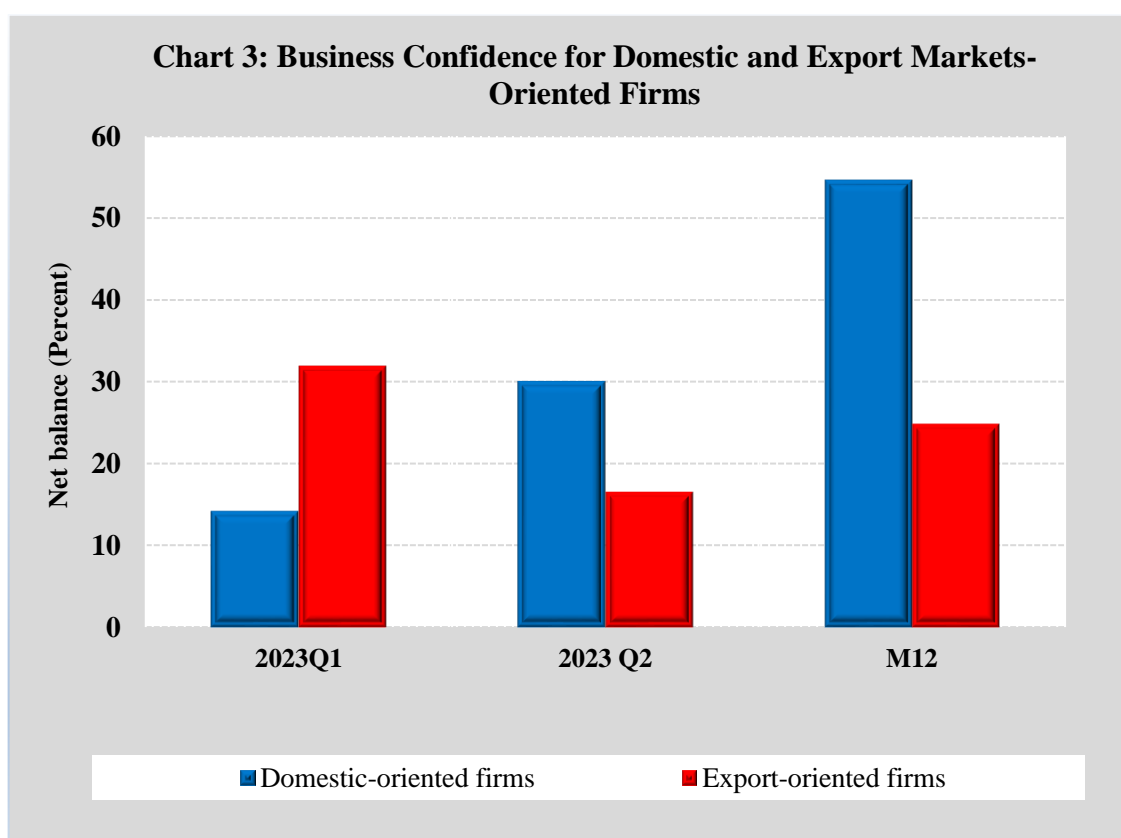


Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the March 2023 Survey, while the red line represents the results of the December 2022 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: Q1 denotes perceptions about business conditions in the first quarter of 2023, Q2 represents expectations about business conditions for the second quarter of 2023, while M12 depicts the perceived business conditions for the 12-months period from April 2023 to March 2024. The red line denotes perceptions about business conditions as envisaged in the previous survey.

- 2.4 Chart 3 shows that confidence among domestic market-oriented firms improves markedly in the second quarter of 2023, compared to the first quarter of 2023. The level of optimism improves further in the 12-month period to March 2024 (M12), consistent with the anticipated continued domestic economic recovery. Confidence in the domestic market-oriented firms is mainly driven by firms within the Mining and Quarrying; Manufacturing; Finance, Professional and Administrative Activities; and Retail, Accommodation, Transport and Communications sectors.
- 2.5 Meanwhile, export-oriented firms are also optimistic about business conditions in the first quarter of 2023, but less optimistic in the subsequent quarter, possibly due to the continued expected disruptions in the world markets and inflationary pressures arising from the ongoing Russia-Ukraine war. Nonetheless, firms' confidence improves in the year ending March 2024.

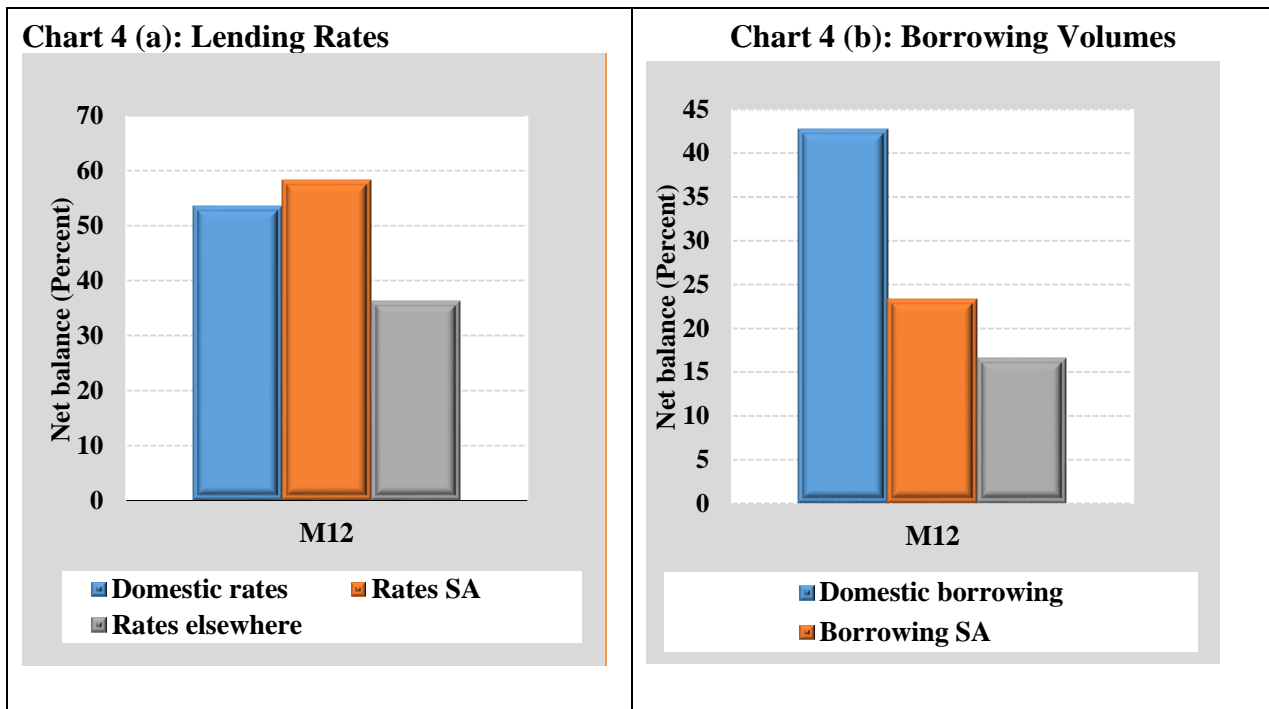


Source: Bank of Botswana

3. Lending Rates and Borrowing Volumes

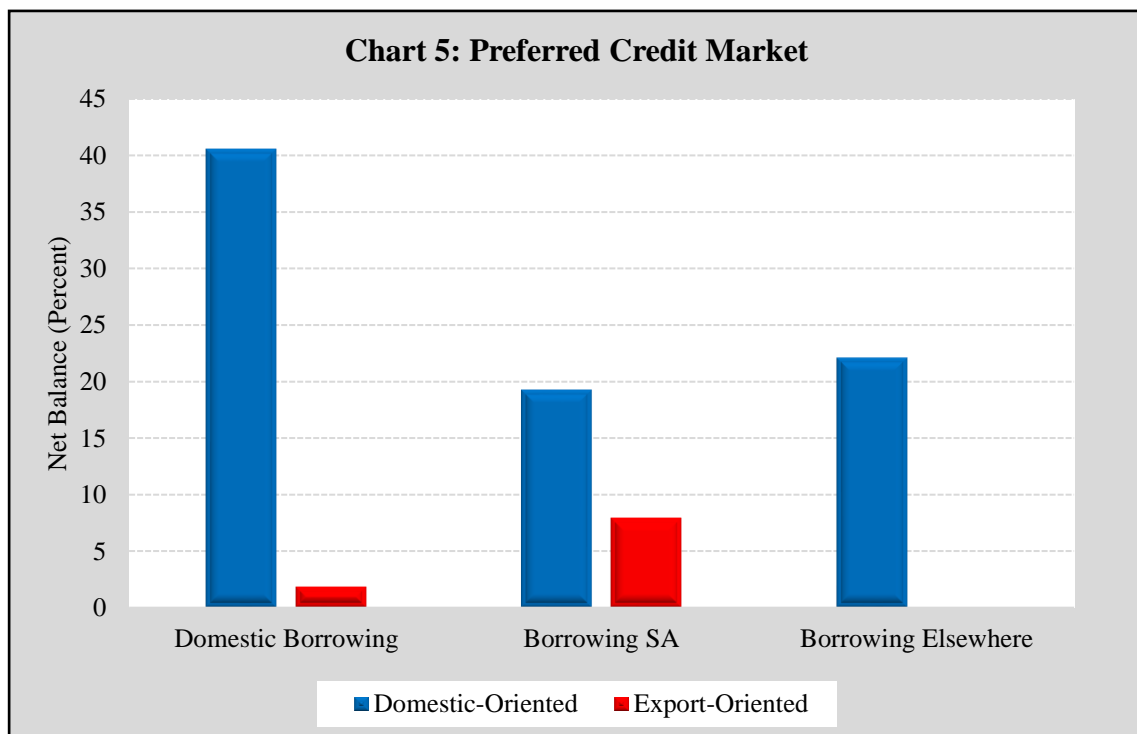
Expected increase in lending rates and borrowing volumes across all markets in the year to March 2024 (M12)

- 3.1 Firms expect lending rates and the volume of borrowing from all markets (domestically, in South Africa and elsewhere) to increase in the 12 month-period to March 2024, as depicted by the positive net balances (Chart 4). Notwithstanding the expected increase in lending rates, borrowing volumes from all the three markets are anticipated to expand, consistent with the expected rise in investment, supported by the anticipated improvement in domestic economic performance during the period.



Source: Bank of Botswana

3.2 Firms in the domestic and export-oriented markets perceive tight access to credit in the first quarter of 2023, reflecting the increase in interest rates by most central banks across the world, to combat high inflation. Nonetheless, domestic market-oriented firms mainly prefer to borrow from the domestic market compared to other markets, perhaps due to accessibility considerations, while export-oriented firms prefer to borrow from South Africa.

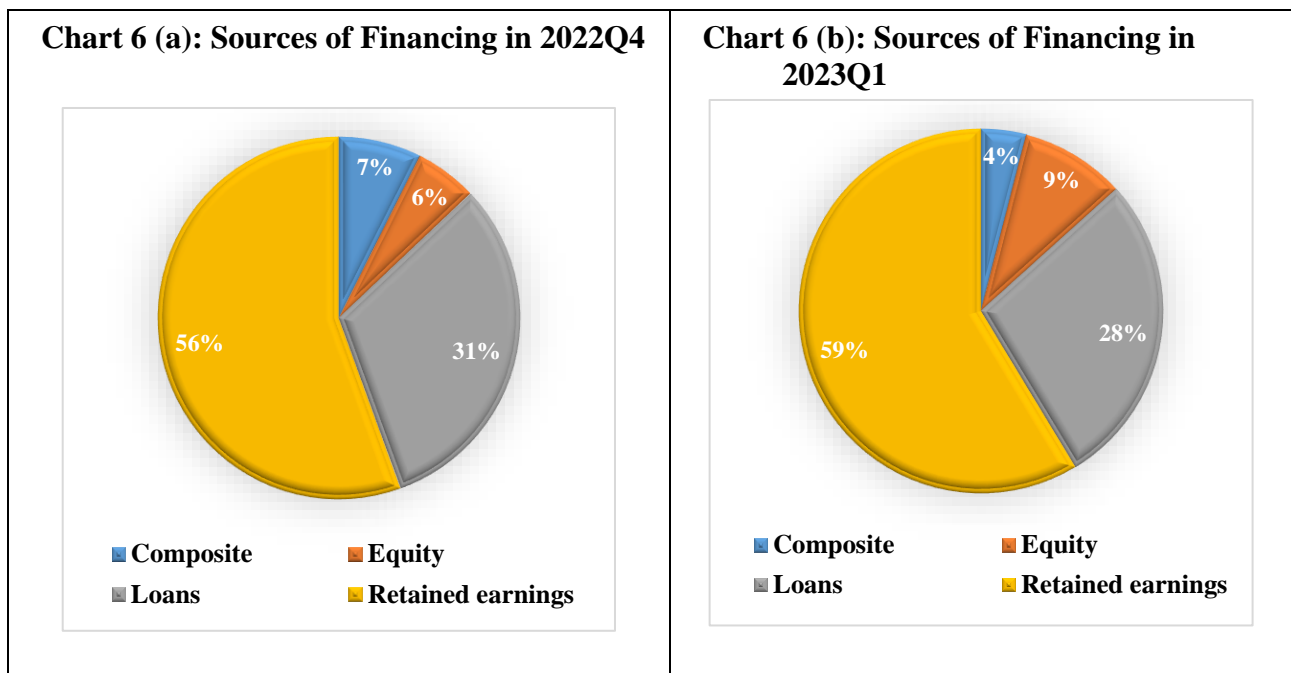


Source: Bank of Botswana

3.3 Approximately 36 percent of the surveyed firms indicated that their choice of where to borrow from was predicated on accessibility, while 30 percent indicated that their

borrowing decisions were influenced by availability of appropriate credit facilities. Meanwhile, 23 percent of the firms cited affordability of suitable loan products, and 11 percent cited availability and affordability of the required loan products as determinants of their preferred credit market.

3.4 Firms mainly prefer to finance their business operations from retained earnings, as was the case in the previous survey. This was followed by loans, then equity and lastly composite (combination of financing) (Chart 6). Retained earnings as a preferred source of financing was prevalent among all sectors. On the other hand, most of the firms in the Finance, Professional and Administrative Activities and Retail, Accommodation, Transport and Communications sector preferred loans as a funding source.



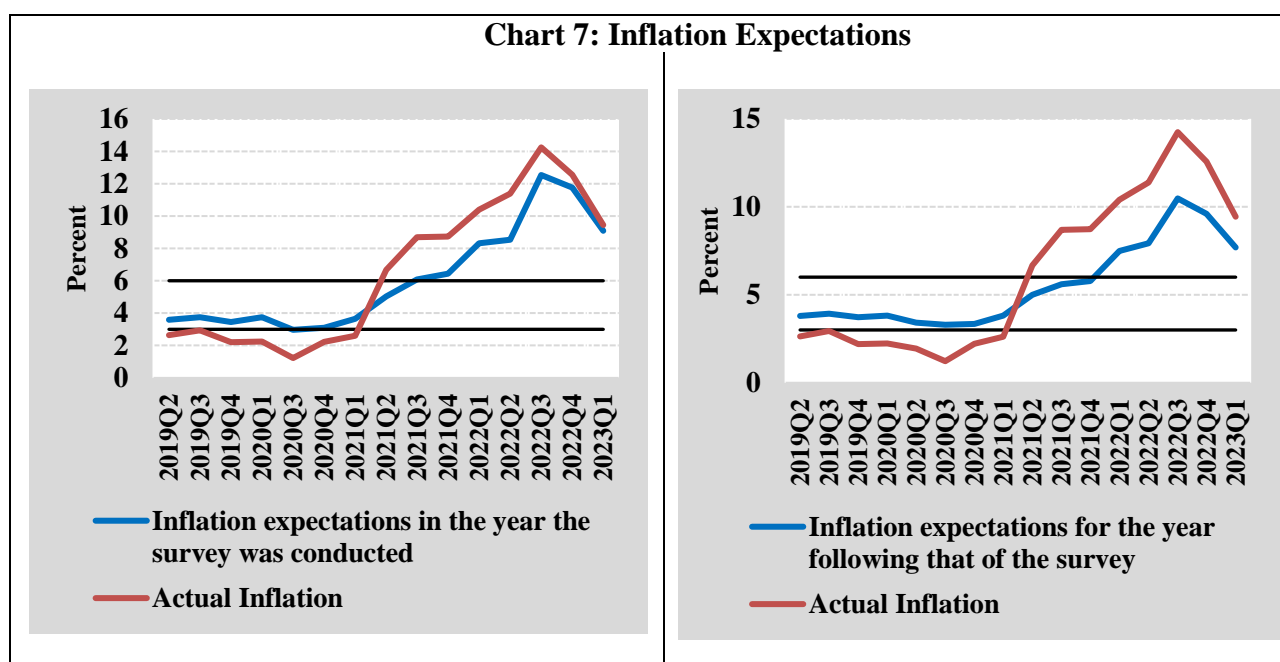
Source: Bank of Botswana

4 Price Developments and Inflation

Cost pressures expected to decrease in the first quarter of 2023

4.1 Firms expect cost pressures to be subdued in the first quarter of 2023, attributable to the expected downward pressure on materials and transport costs, mainly due to relatively lower fuel prices. Nonetheless firms anticipate upward pressure on wages, mainly attributable to the expected increase in public sector wages in April 2023. Firms' expectations about domestic inflation decreased, compared to the previous survey, but still surpassed the Bank's 3 – 6 percent objective range in both 2023 and 2024 (Chart 7), averaging 9.1 percent for 2023 (9.6 percent in the previous survey) and 7.7 percent for 2024. The downward revision of inflation expectations is in line with the Bank's revision of the inflation outlook in February 2023.

Chart 7: Inflation Expectations



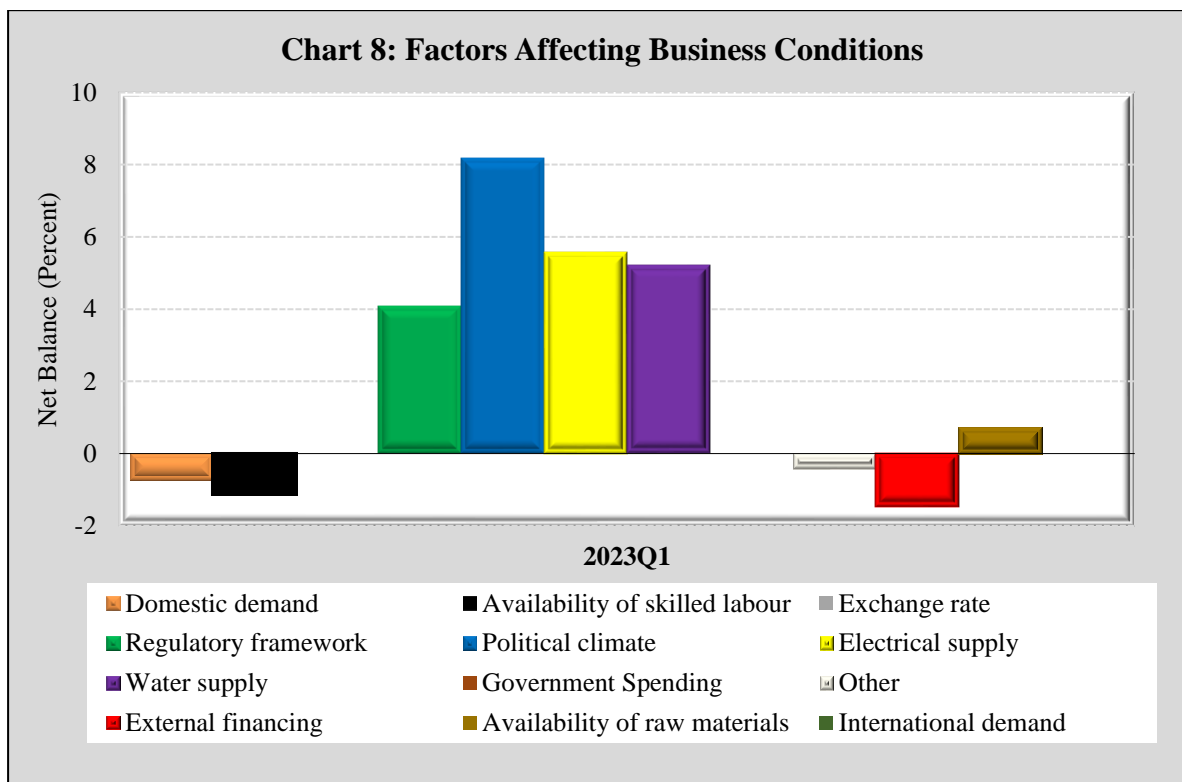
Source: Bank of Botswana

Notes: The chart shows 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 2022 are about annual inflation in 2023, while those made in 2023 are about annual inflation in 2024.

5. Factors Affecting Business Conditions in the first Quarter of 2023

5.1 Firms, specifically those in the Manufacturing; Retail, Accommodation, Transport and Communications; and Finance, Professional and Administrative Activities sectors cited inability to raise external finance as a major challenge to doing business in Botswana (Chart 8). The other most cited impediments to business operations were unavailability of skilled labour, cited by all sectors except 'Mining and Quarrying', and Agriculture; weak domestic demand (cited by Retail, Accommodation, Transport and Communications; Manufacturing; Construction and Real Estate; and Agriculture); as well as other challenges cited by 'Retail, Accommodation, Transport and Communications; and 'Finance, Professional and Administrative Activities' sectors.

5.2 On the positive side, adequate water and electricity supply, favourable political climate, effective regulatory framework and availability of raw materials continued to be viewed as supportive factors to doing business in Botswana in the first quarter of 2023 (Chart 8).



Source: Bank of Botswana

6. Conclusion

- 6.1 Overall, the firms' level of optimism about business conditions in the first quarter of 2023 was the same as in the fourth quarter of 2022. Going forward, business conditions are expected to improve further in the second quarter of 2023 and in the 12-month period to March 2024, supported by anticipated further improvement in inventories and production capacity in the second quarter of 2023. These improvements mainly reflect the continued domestic economic recovery, following relaxation of COVID-19 restrictions, as well as the implementation of the expansionary fiscal policy, among others. Firms expect the economy to expand by 4 percent in 2023, and inflation to decline but remain above the Bank's objective range of 3 – 6 percent.