



THE QUARTELY BUSINESS EXPECTATIONS SURVEY

MARCH | 2025



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 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 responded to questions on various topics, including the prevailing business conditions, outlook for both economic growth and inflation, and business performance in the survey horizon.
- 1.2 The March 2025 BES report presents business expectations about the first quarter of 2025 (M0), the second quarter of 2025 (M3); and the 12-month period from April 2025 to March 2026 (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. The list indicates that some sectors have been merged due to their interconnectedness, thereby easing the analysis. The survey response rate is 57 percent compared to 52 percent in the December 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 by 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 gross domestic product (GDP) growth and inflation are quantitative simple averages.

(b) Highlights of the Survey Results

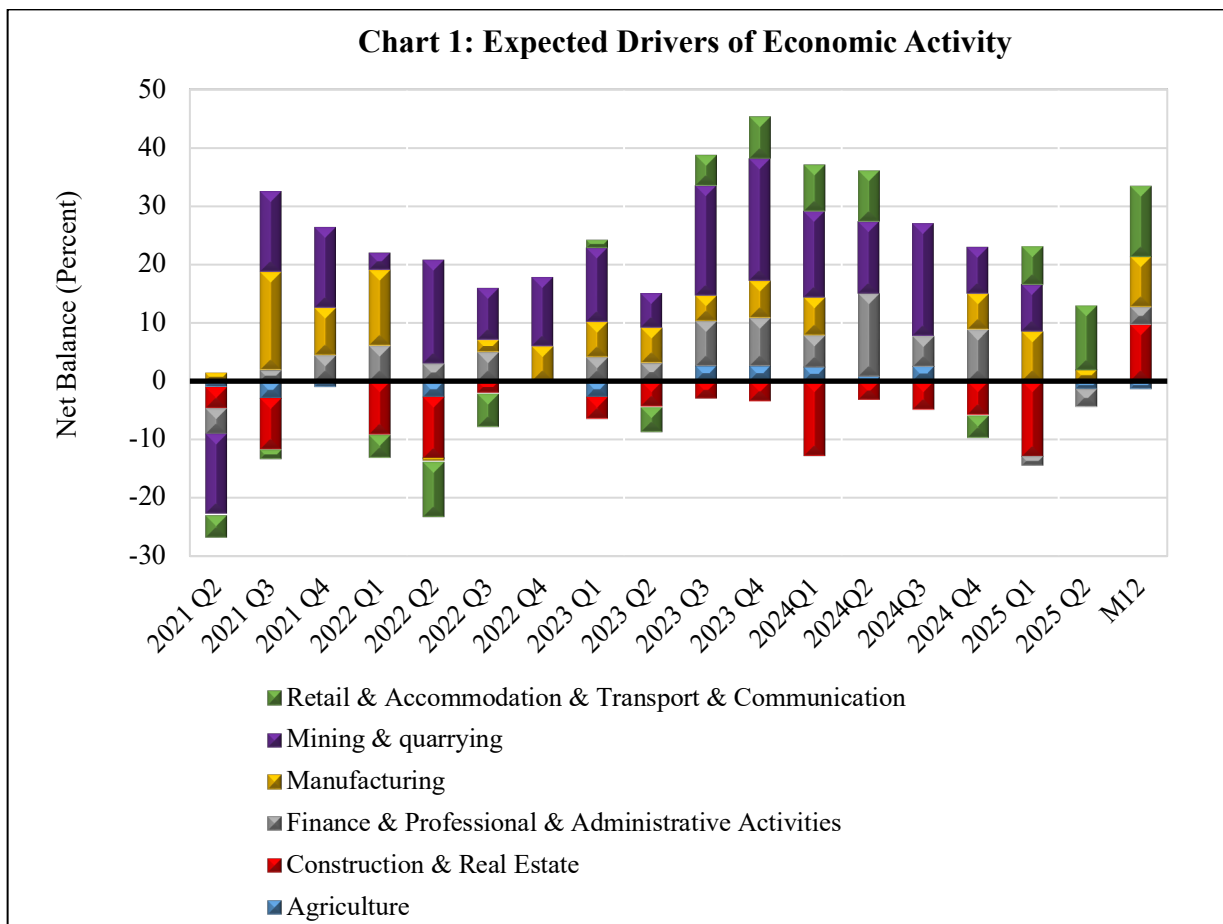
- 1.5 The results of the current BES indicate that firms are generally optimistic about business conditions in the first quarter of 2025, although less so, compared to the fourth quarter of 2024. The optimistic firms include those in Retail, Accommodation, Transport, Communications; and Manufacturing; Mining and Quarrying, while those in the Agriculture sector remained neutral, and the rest were pessimistic. Firms expect both lending interest rates and borrowing volumes to increase in the year to March 2026, perhaps the latter signaling the need to borrow and capitalise on the envisaged favorable business conditions over the period (Chart 2). However, they expect overall cost pressures to decrease in the first quarter of 2025, mainly due to the anticipated decrease in input costs. Additionally, firms expect inflation to remain within the 3 – 6 percent objective range, suggesting that inflation expectations are well anchored.

2. Business Conditions and Economic Performance

Anticipated moderate output growth in 2025

- 2.1 Firms expect overall output to expand by 1.9 percent in 2025, compared to a 3 percent contraction recorded in 2024, but lower than the 3.3 percent growth projected by the Ministry of Finance for the same period.
- 2.2 Firms in Retail, Accommodation, Transport, Communications; Manufacturing and Mining and Quarrying were optimistic that business conditions will be supportive of economic activity in the first quarter of 2025, while those in the Agriculture sector remained neutral (Chart 1). Nonetheless, firms in Finance, Professional and Administrative Activities and Construction and Real Estate were pessimistic about business conditions in the first quarter of 2025.
- 2.3 Looking ahead, firms in Retail, Accommodation, Transport, Communications and Manufacturing were optimistic that business conditions will be supportive of economic activity in the second quarter of the year, while those in Mining and Quarrying and Construction and Real Estate were neutral (Chart 1). Nonetheless, firms in Finance, Professional and Administrative Activities and Agriculture were pessimistic about business conditions in the second quarter of the year. Furthermore, firms in Retail, Accommodation, Transport, Communications; Manufacturing; Finance, Professional and Administrative Activities; Construction and Real Estate were optimistic about business conditions in the 12-month period ahead. In contrast, firms in Mining and Quarrying were neutral, those in Agriculture were pessimistic.
- 2.4 The neutral stance by the Mining and Quarrying sector about business conditions in the second quarter of the year and the 12-month period ahead could be attributable to the uncertain outlook on global demand for rough diamonds and the growing popularity of other luxurious goods in major markets. Meanwhile, the optimism in other sectors could be aligned to announced government interventions aimed at supporting economic activity, including reforms to further improve the business environment in Botswana.¹

¹ These include, amongst others, the National Housing Programme (Bonno); youth empowerment programmes to encourage youth entrepreneurship and innovation; economic diversification which embraces green and digital economy, focusing on sectors such as tourism, agriculture, manufacturing and value-addition, and health care as well as establishment of a National Development Fund.



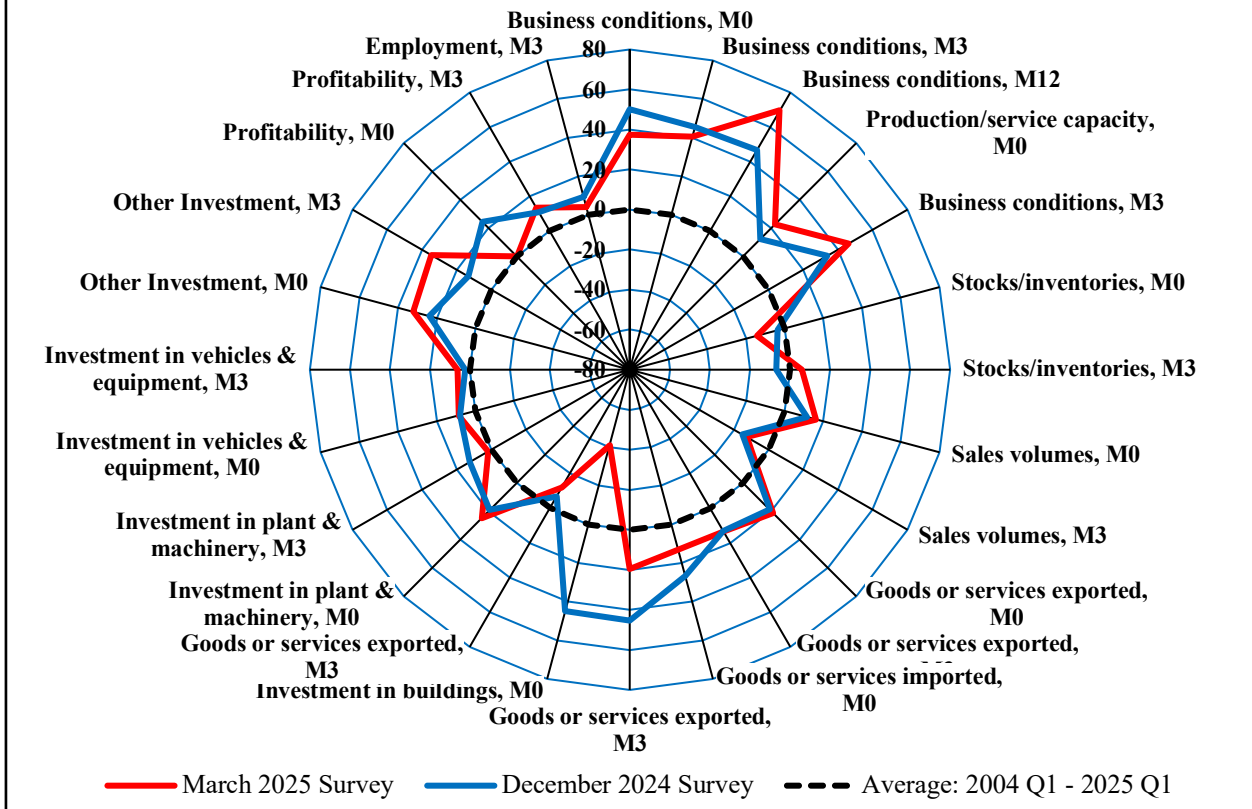
Source: Bank of Botswana

Notes:

1. The chart shows net balances on each sector’s economic performance expectations for the first and second quarters of 2025, and the 12-month period to March 2026 (M12).
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 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 expect business conditions to remain positive and supportive of economic activity in the first and second quarters of 2025 (Chart 2), albeit to a lesser extent than in the previous quarter (2024Q4). The optimism about business conditions in the second quarter of the year (M3) is reflected in the anticipated rise in production/service capacity, sales volumes; goods and services exported and profitability in the second quarter of the year. However, firms are more optimistic about business conditions in the 12-month period to March 2026 compared to the first and second quarters of 2025.

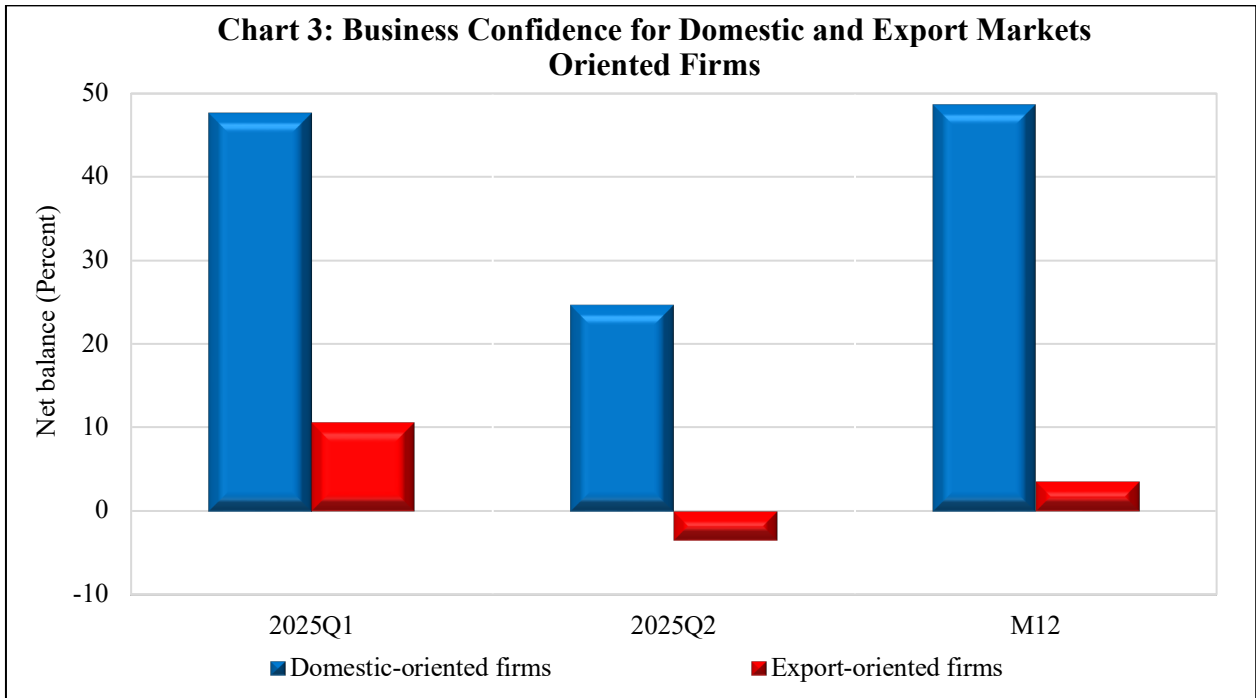
Chart 2: Summary of Economic Conditions



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 March 2025 Survey. The blackdashed line is the static position, representing neutral 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 away from the centre of the chart show an improvement, whereas those moving towards the centre of the chart represent a deterioration.
 3. The current survey results, shown by the red line, are interpreted as business conditions expected in the first quarter of 2025 (M0), the second quarter of 2025 (M3), and the 12-month period to March 2026 (M12). The blue line denotes perceptions about business conditions as envisaged in the previous survey.
- 2.6 Chart 3 illustrates that business confidence among domestic market-oriented firms decelerates in the second quarter of 2025 (M3) but improves in the twelve-month period to March 2026 (M12), compared to the first quarter of 2025, consistent with the anticipated domestic economic recovery in 2025. Meanwhile, export market-oriented firms are less confident about business conditions in both periods, compared to the first quarter of 2025, possibly reflecting potential trade barriers, economic uncertainty, and supply chain disruptions, which might negatively impact the ease of doing business.

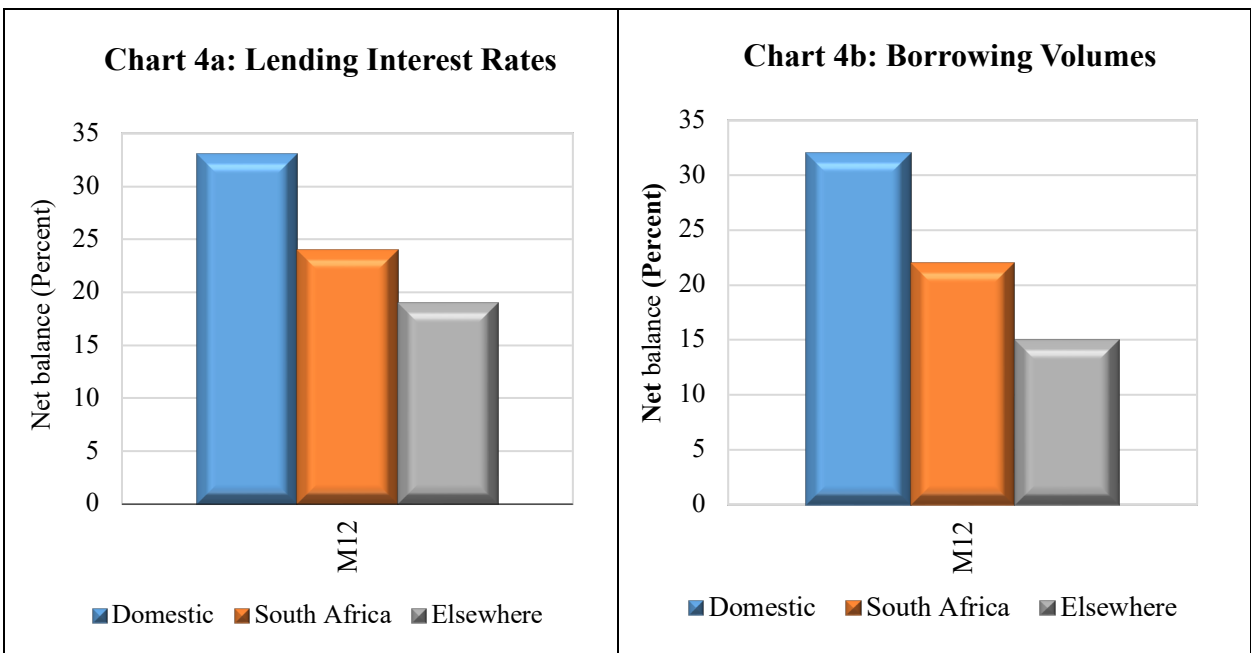


Source: Bank of Botswana

3. Lending Interest Rates and Borrowing Volumes

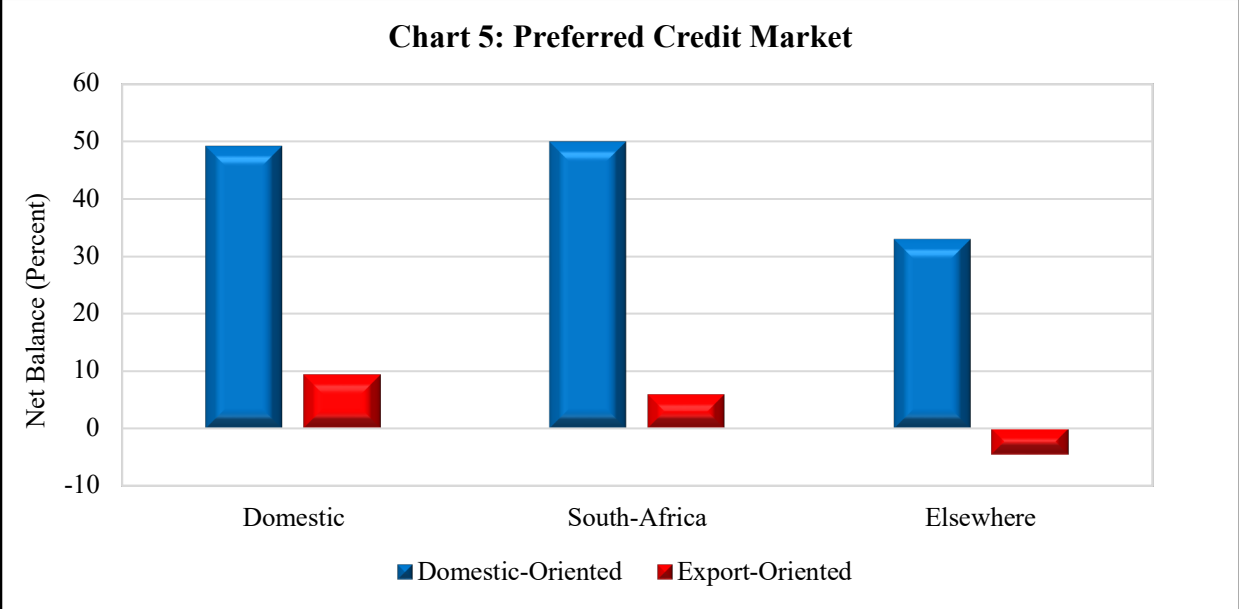
Expected increase in lending interest rates and borrowing volumes across all markets in the year to March 2026 (M12)

- 3.1 Firms expect lending interest rates to increase across all markets (domestic, South Africa and elsewhere) in the year to March 2026, as reflected by the positive net balances Chart 4a. Notwithstanding the anticipated rise in lending rates, borrowing volumes are also expected to increase over the same period Chart 4b.



Source: Bank of Botswana

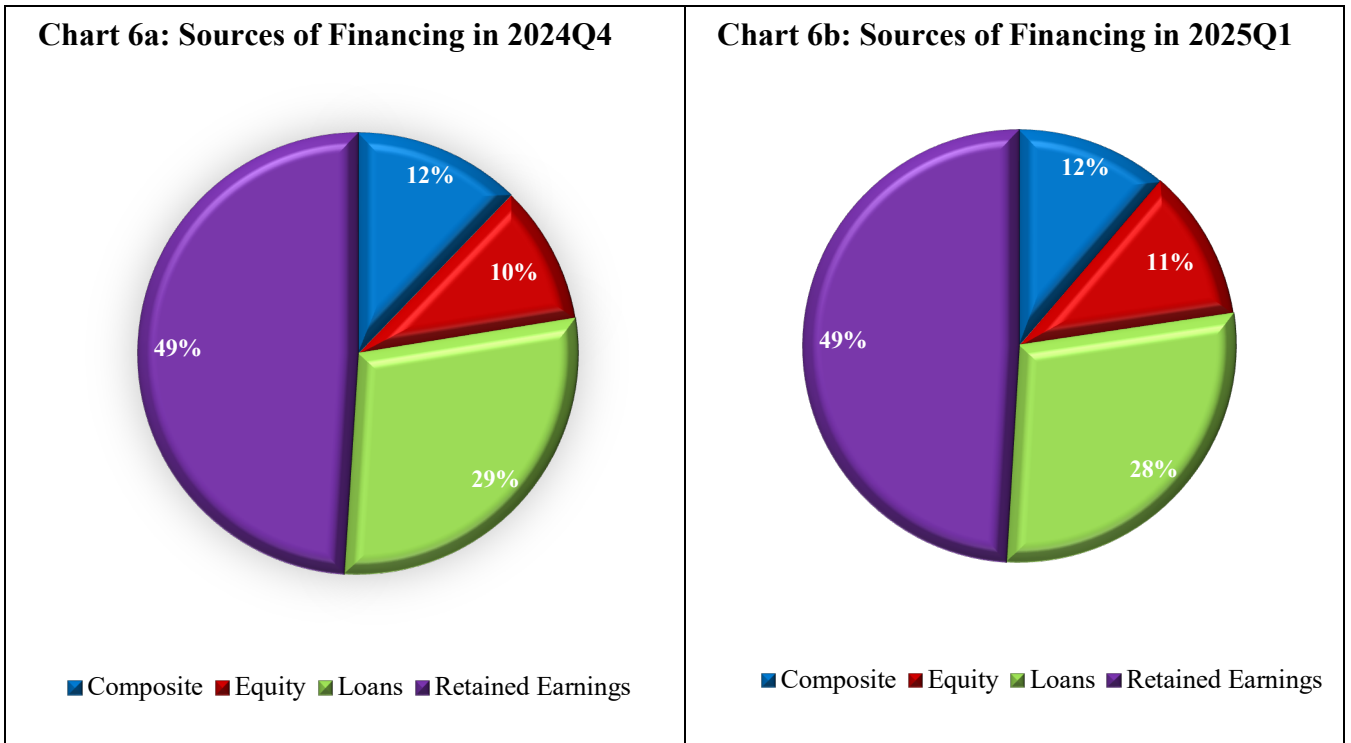
3.2 Most domestic market-oriented firms preferred borrowing from South Africa and domestically (Botswana) in the first quarter of 2025, compared to elsewhere (Chart 5). Likewise, export market-oriented firms preferred borrowing domestically and in South Africa.



Source: Bank of Botswana

3.3 Approximately 41 percent of the surveyed firms indicated that in their choice of credit market they mainly considered accessibility of appropriate credit facilities, 33 percent considered availability of suitable loans, while 13 percent were influenced by affordability of credit. Meanwhile, another 13 percent of the firms stated a combination of these factors as a determinant of 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, a composite of sources and equity, 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; and Retail, Accommodation, Transport and Communications ranked loans relatively high as a funding source.

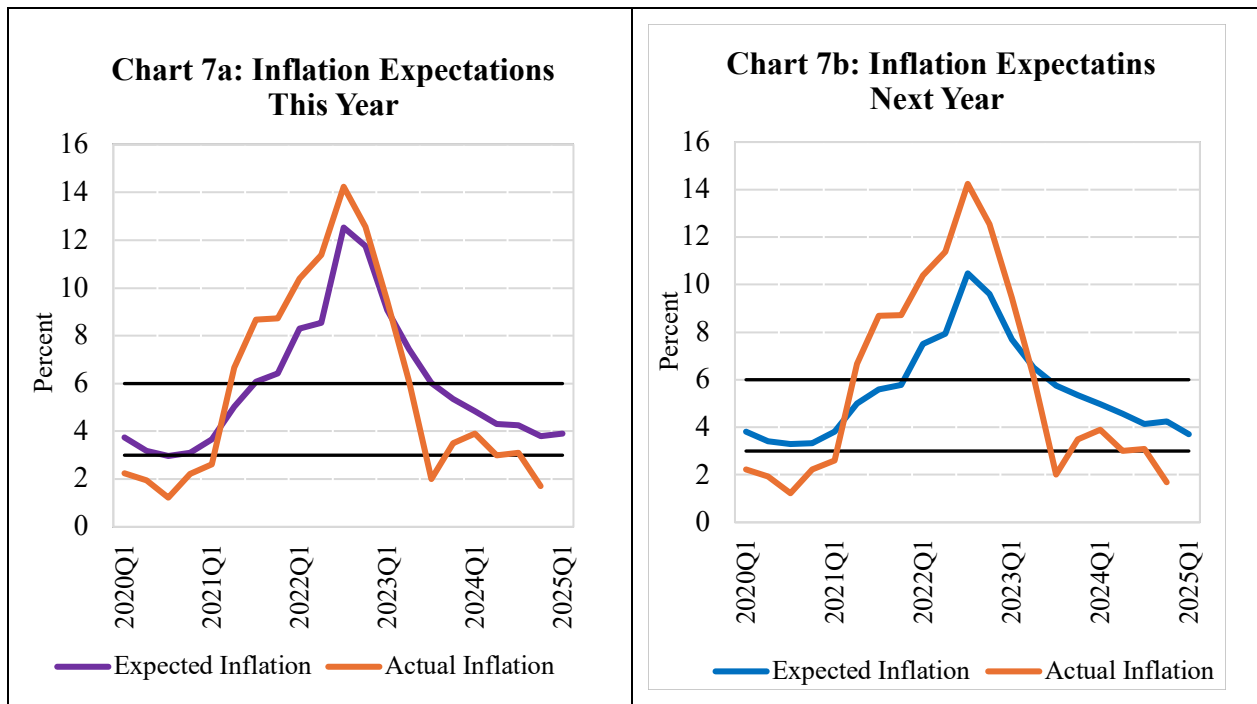


Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to decrease in the first quarter of 2025

- 4.1 Overall, firms expect cost pressures to decrease in the first quarter of 2025, mainly due to the anticipated decrease in input costs, particularly materials, wages, and other inputs. However, despite anticipated decrease in cost pressures, firms expect domestic inflation to increase in 2025, averaging 3.9 percent and only decrease slightly in 2026, averaging 3.7 percent (Chart 7a and 7b). Firms anticipate inflation to remain within the Banks’ 3 – 6 percent objective range in both 2025 and 2026, suggesting that inflation expectations are well anchored.



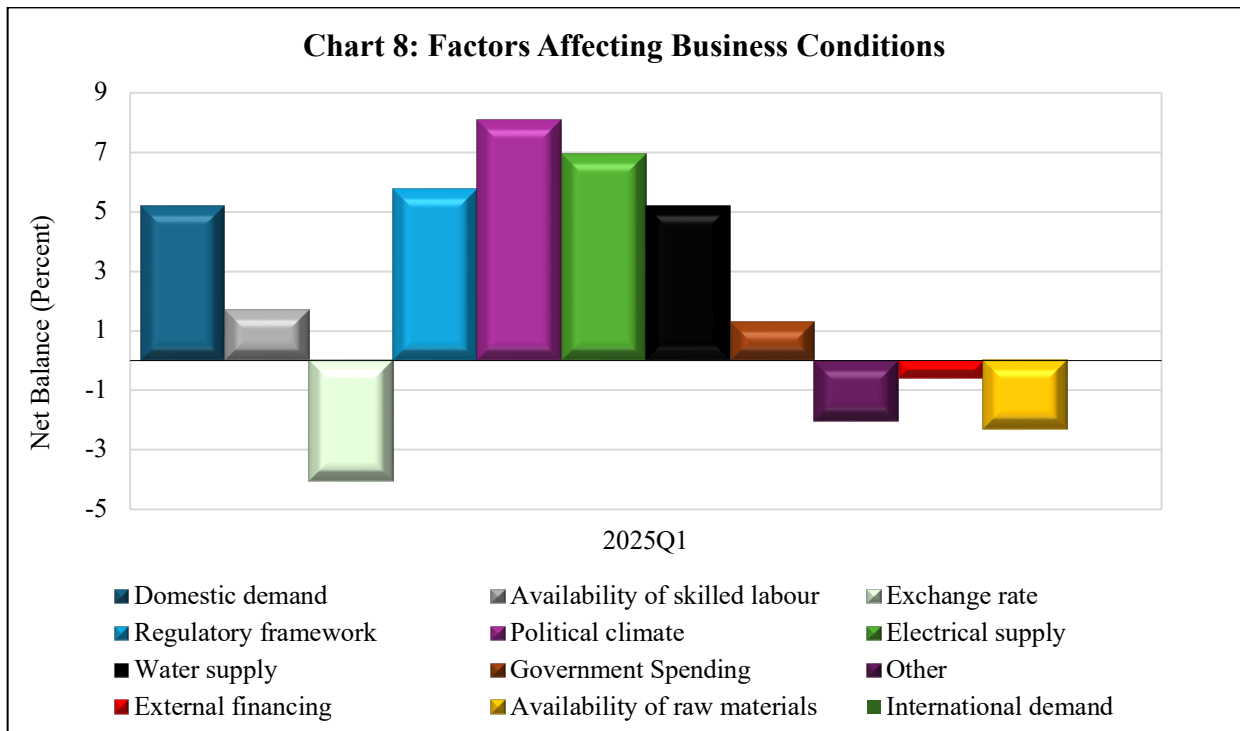
Source: Bank of Botswana

Note:

The charts show the average inflation expectations across different surveys. In the case of inflation expectations next year, the quarterly inflation expectations made in 2024 are about inflation in 2025, while those made in 2025 are about annual inflation in 2026.

5. Factors Affecting Business Conditions in the First Quarter of 2025

- 5.1 The exchange rate was cited as the major factor adversely affecting firm's business operations in the first quarter of 2025, followed by low availability of raw materials, while political climate, electricity supply, regulatory framework, water supply and domestic demand were considered the most supportive factors for doing business in Botswana (Chart 8).



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were less optimistic about business conditions in the first quarter of 2025 compared to the fourth quarter of 2024. However, business conditions are expected to improve in the 12-month period to March 2026. The expected improvement may reflect Government interventions to support economic activity, including reforms aimed at improving the business environment. Firms anticipate the domestic economy to expand by 1.9 percent in 2025, inflation to average 3.9 percent and 3.7 percent in 2025 and 2026, respectively.