

# THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



SEPTEMBER 2022  
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 the domestic business community's perceptions about 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; outlook for economic growth and inflation; 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 twelve months.
- 1.2 The September 2022 BES Report presents business expectations about the current period (Q3:2022), the fourth quarter of 2022 (Q4:2022); and the twelve-month period (M12) from October 2022 - September 2023 (Q4:2022-Q3:2023). Thus, the survey was conducted during the period in which some of the COVID-19 regulations and protocols were still in place. However, the survey horizon covers the period when the restrictions were less stringent compared to 2020 and part of 2021, with international travel allowed with proof of full vaccination or a negative COVID-19 Polymerase Chain Reaction (PCR) test performed within 72 hours prior to travel, and later on, a vaccination certificate was sufficient for international travel into Botswana.
- 1.3 The BES samples 100 businesses from thirteen 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. Some sectors, for example, Construction and Real Estate; Finance, Insurance and Pension Funding, Professional, Scientific and Technical Activities as well as Administrative and Support Services were merged for ease of analysis since they are interconnected. The response rate for the current survey is 57 percent compared to 56 percent in the previous survey.
- 1.4 The survey questions are mainly focused on the anticipated direction of change in selected indicators, that is, whether the indicator is 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 GDP growth and inflation are quantitative and consolidated into simple averages.

### **Highlights of the Survey Results**

- 1.5 The results of the current BES suggest that firms are optimistic about business conditions in the third quarter of 2022 compared to the pessimism that prevailed in the second quarter. The optimism is reflected by firms' expectations of positive domestic economic performance, hence, some expected improvements in investment in plant, machinery, buildings, vehicles, equipment and other investment, compared to the June 2022 survey. Firms anticipate tight access to credit across all markets as central banks continue to increase rates amid high levels of inflation. Firms also expect cost pressures to remain

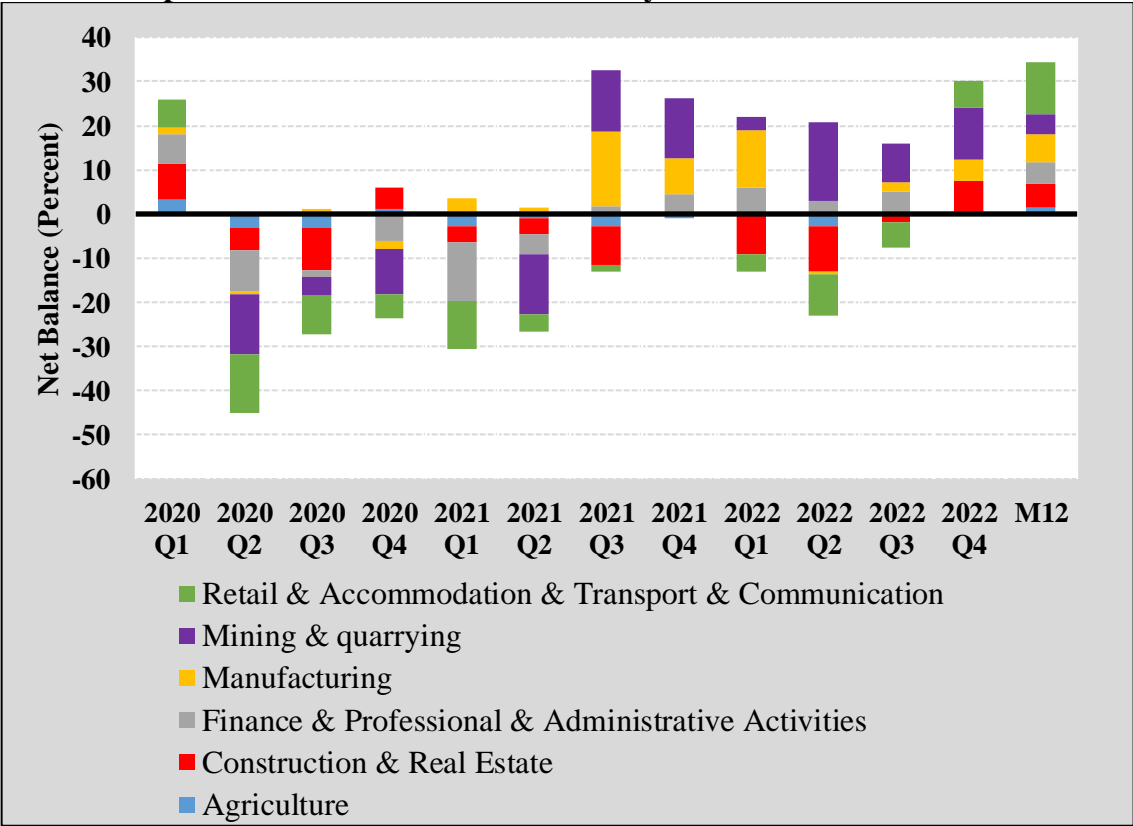
high in the fourth quarter of 2022, mainly due to supply constraints arising from the Ukraine-Russia war. Firms expect inflation to remain above the Bank’s 3 - 6 percent objective range in 2022 and 2023. Overall, the increase in business confidence is expected to have a positive impact on domestic economic performance.

**2. Economic Performance and Business Conditions**

**Output growth is expected to slowdown in 2022**

2.1 Firms expect overall output to expand by 3.8 percent in 2022, below the projections of 4.2 percent by the Ministry of Finance and 4.1 percent by the International Monetary Fund (IMF) for the same period. On quarterly basis, in general, firms indicated that they expect GDP to increase by 3.6 percent and 4 percent in the third and fourth quarters of 2022, respectively.

**Chart 1: Expected Drivers of Economic Activity**



Source: Bank of Botswana

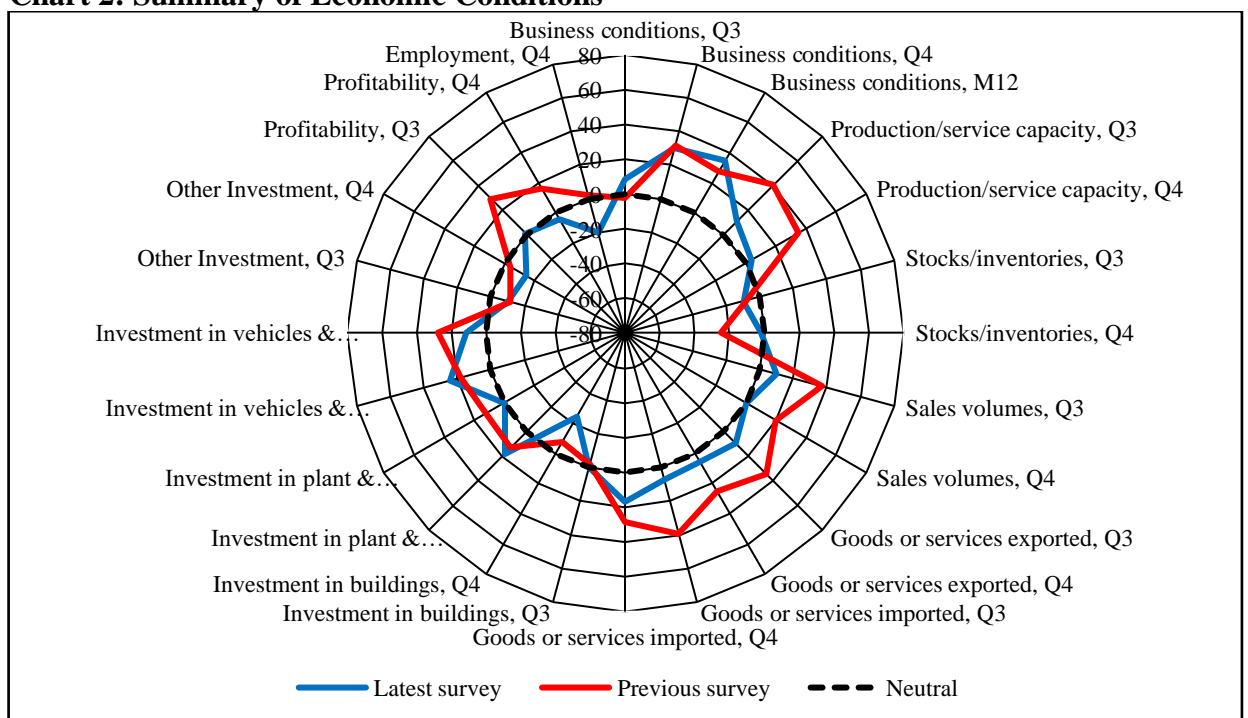
Note: The chart shows net balances on each sector’s economic performance expectations for the first quarter of 2020 to M12 (the period from October 2022 to September 2023). The net balances are weighted by each sector’s relative share in GDP. For example, for a sector with (P+N) members in the sample, 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) x 100 x Z].

2.2 Notably, firms in the Construction and Real Estate and Retail, Accommodation, Transport and Communications sectors were pessimistic about economic growth prospects in the third quarter of 2022, while Mining and Quarrying; Manufacturing; and Finance, Professional and Administrative Activities were optimistic (Chart 1). Positive sentiments in the Mining & Quarrying sector mainly reflect the expected continued favourable conditions in the global diamond market and elevated prices in other

commodities markets. Meanwhile, all sectors are optimistic about the fourth quarter of 2022 and the year ending September 2023, possibly supported by the prevailing accommodative monetary conditions<sup>1</sup> and implementation of the Economic Recovery and Transformation Plan (ERTP), among others.

2.3 Overall, firms expect business conditions to improve in the third quarter of 2022 (Chart 2). They anticipate improvements in investment in plant, machinery, buildings, vehicles, equipment and other investment, in the third quarter of 2022 compared to the second quarter of 2022. These, in combination with expectations of increased growth in the Mining and Quarrying; Manufacturing; and Finance, Professional and Administrative Activities sectors, contribute to the improved expectations about overall business conditions. Business conditions are expected to improve further in the fourth quarter of 2022 and in the 12-month period to September 2023.

**Chart 2: Summary of Economic Conditions**



Source: Bank of Botswana

Notes: The chart summarises firms’ expectations about business conditions. The blue line represents the results of the September 2022 Survey, while the red line represents the results of the June 2022 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.

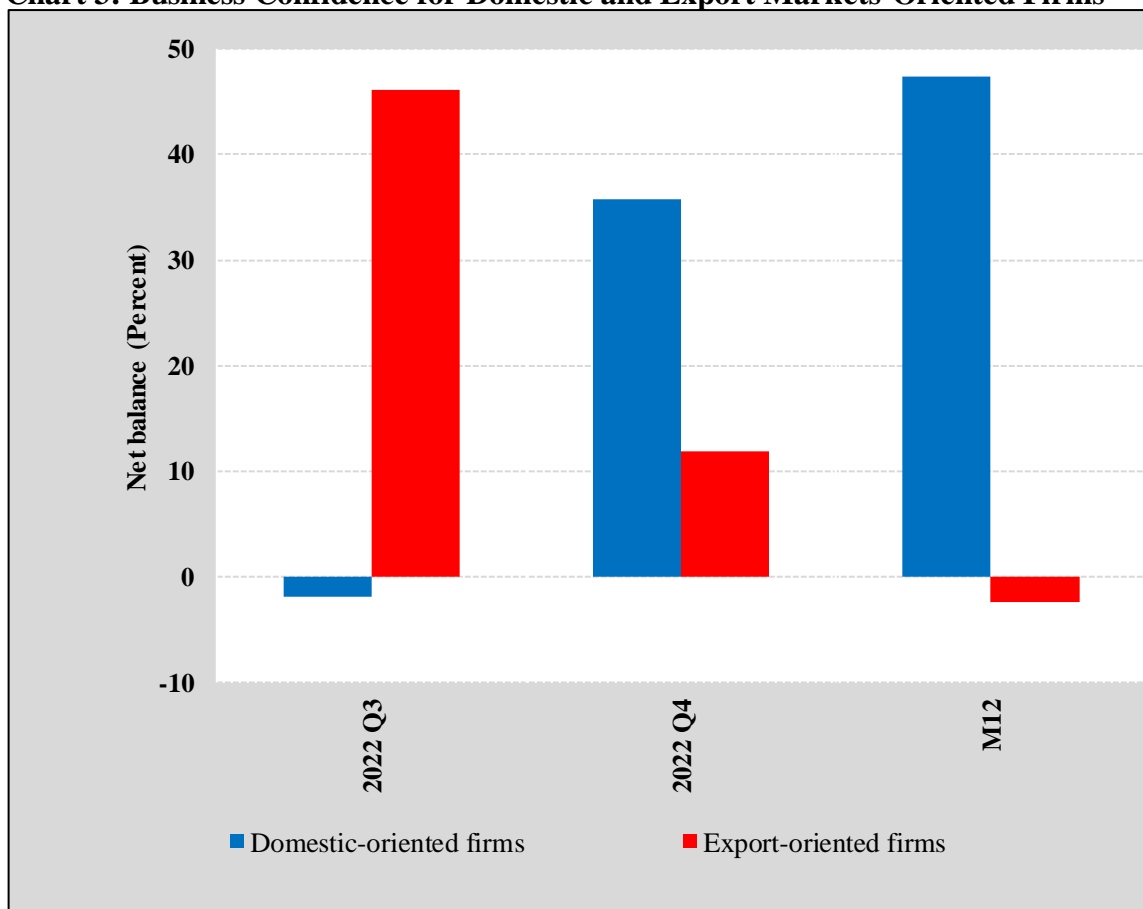
The results of the current survey, along the blue line, are interpreted as follows: Q3 denotes perceptions about business conditions in the third quarter of 2022, Q4 represents expectations about business conditions for the fourth quarter of 2022, while M12 depicts the perceived business conditions for the twelve-month period from October 2022 to September 2023. The red line denotes perceptions about business conditions as envisaged in the previous survey.

<sup>1</sup> See the linked , Bank of Botswana, Monetary Policy Report (August 2022). (Page 32, Chart 4.5)

2.4 Chart 3 shows that confidence among domestic market-oriented firms improves markedly in the fourth quarter of 2022, compared to the third quarter. The level of optimism improves further in the twelve-month period to September 2023 (M12), consistent with the anticipated continued domestic economic recovery and the currently accommodative monetary conditions. Confidence in the domestic market-oriented firms is mainly driven by domestic market oriented firms within the Mining and Quarrying sector.

2.5 Meanwhile, export-oriented firms are also optimistic about business conditions in the third quarter of 2022. However, their optimism declines in the fourth quarter of 2022 and they become pessimistic about the 12-month period to September 2023, possibly due to the expected disruptions in the world markets and inflationary pressures arising from the ongoing Russia-Ukraine war.

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



Source: Bank of Botswana

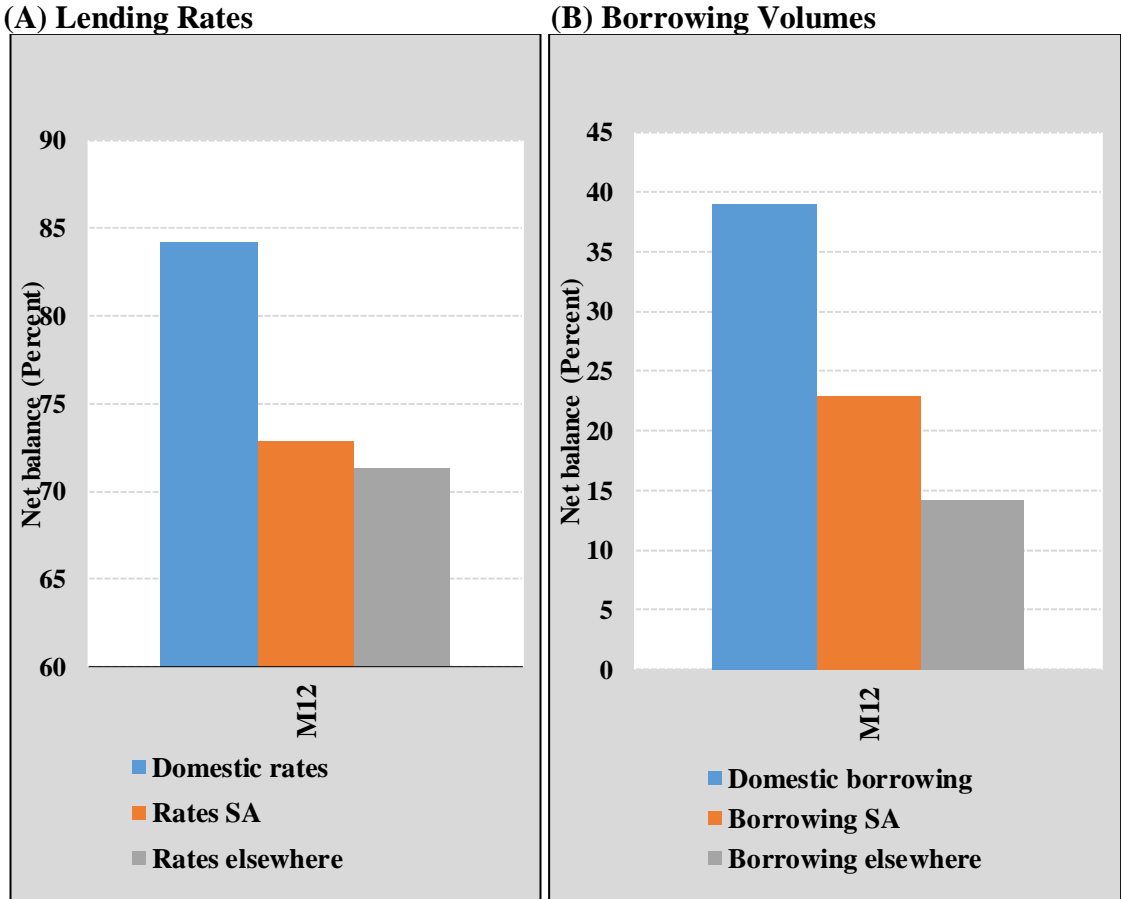
### 3. Expected Lending Rates and Borrowing Volumes

**Lending rates and borrowing volumes across all markets are expected to increase in the year to September 2023 (M12)**

3.1 Firms expect the lending rates and the volume of borrowing from all markets (domestic, South African and elsewhere) to increase in the twelve-month period to September 2023 as depicted by the positive net balances (Chart 4). Notwithstanding the expected increase in lending rates, the borrowing volumes are anticipated to increase, consistent with the

expected rise in investment, in line with the expected improvement in domestic economic performance during the period.

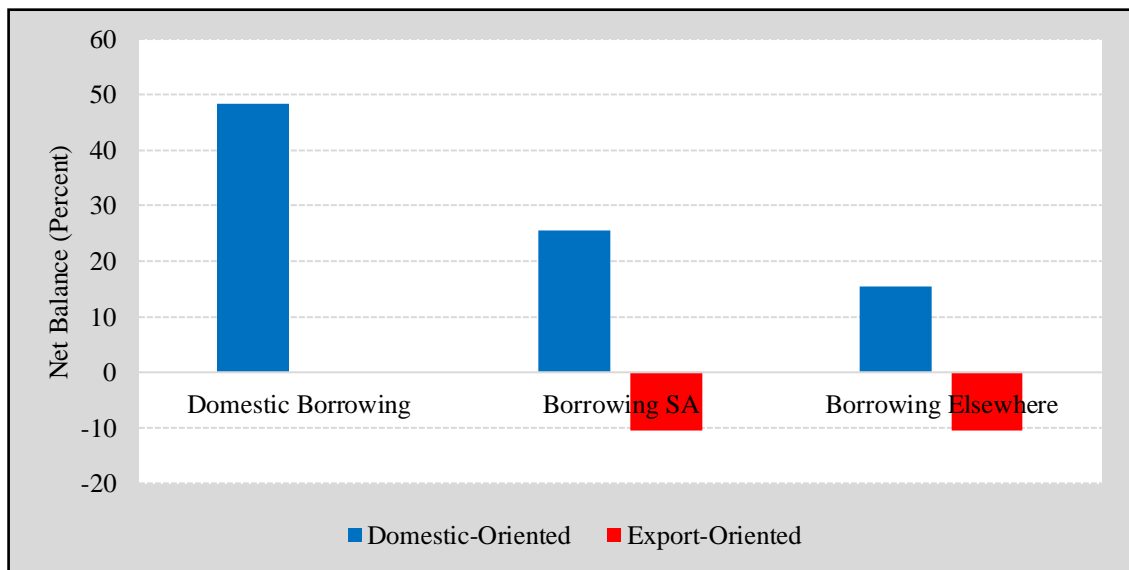
**Chart 4: Borrowing Volumes and Lending Rates**



Source: Bank of Botswana

3.2 Firms in the domestic and export-oriented markets perceived access to credit to be tight in the third quarter of 2022, mainly due to rising interest rates in response to monetary policy tightening by the Bank of Botswana in a bid to curb high inflation. Nonetheless, domestic market -oriented firms mainly prefer to borrow from the domestic market compared to other markets, perhaps due to accessibility considerations. Meanwhile, export-oriented firms expect a reduction in borrowing volumes across all markets mainly due to perceived tight access to credit in the third quarter of 2022.

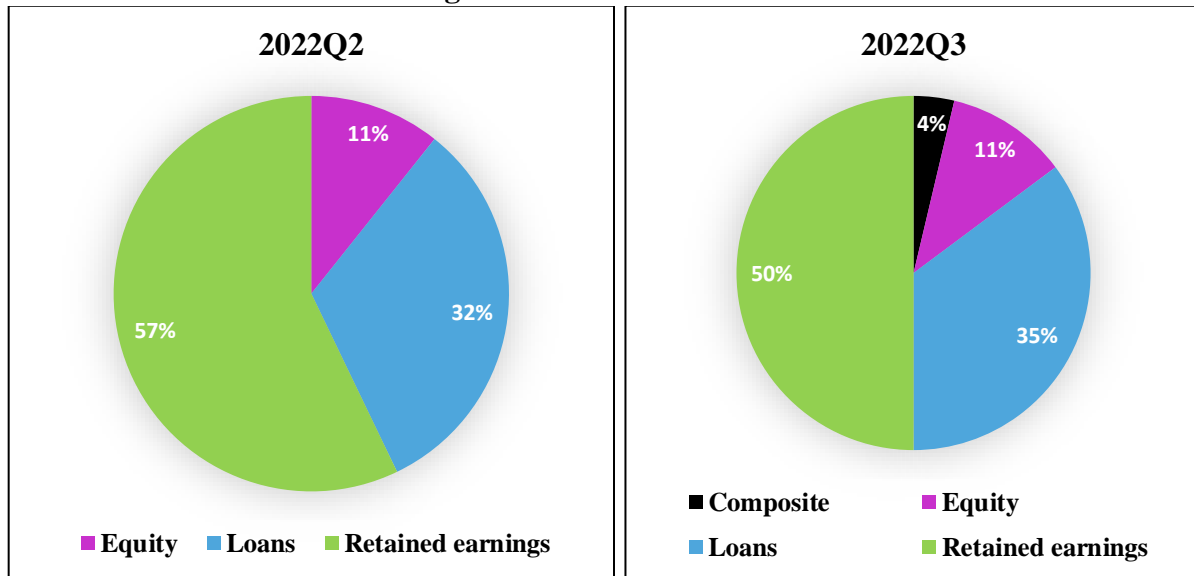
**Chart 5: Preferred Credit Market**



Source: Bank of Botswana

- 3.3 Approximately 44 percent) of the surveyed firms indicated that their choice of where to borrow was predicated on accessibility, while 34 percent cited availability of suitable loan products. Meanwhile, 18 percent of the firms indicated that their borrowing decisions were influenced by affordability of appropriate credit facilities, while 4 percent of the surveyed firms cited a combination of availability and affordability of the required loan products. As in the previous survey, most firms prefer to finance their business operations mainly from retained earnings, followed by loans, then equity and, lastly, a combination of financing (composite) (Chart 6). Retained earnings as a source of financing was prevalent among the Manufacturing; Retail and Accommodation and Transport and Communications; and Construction and Real Estate. Meanwhile, most of the firms in the Finance and Professional and Administrative sector preferred loans as a funding source.

**Chart 6: Sources of Financing**



Source: Bank of Botswana

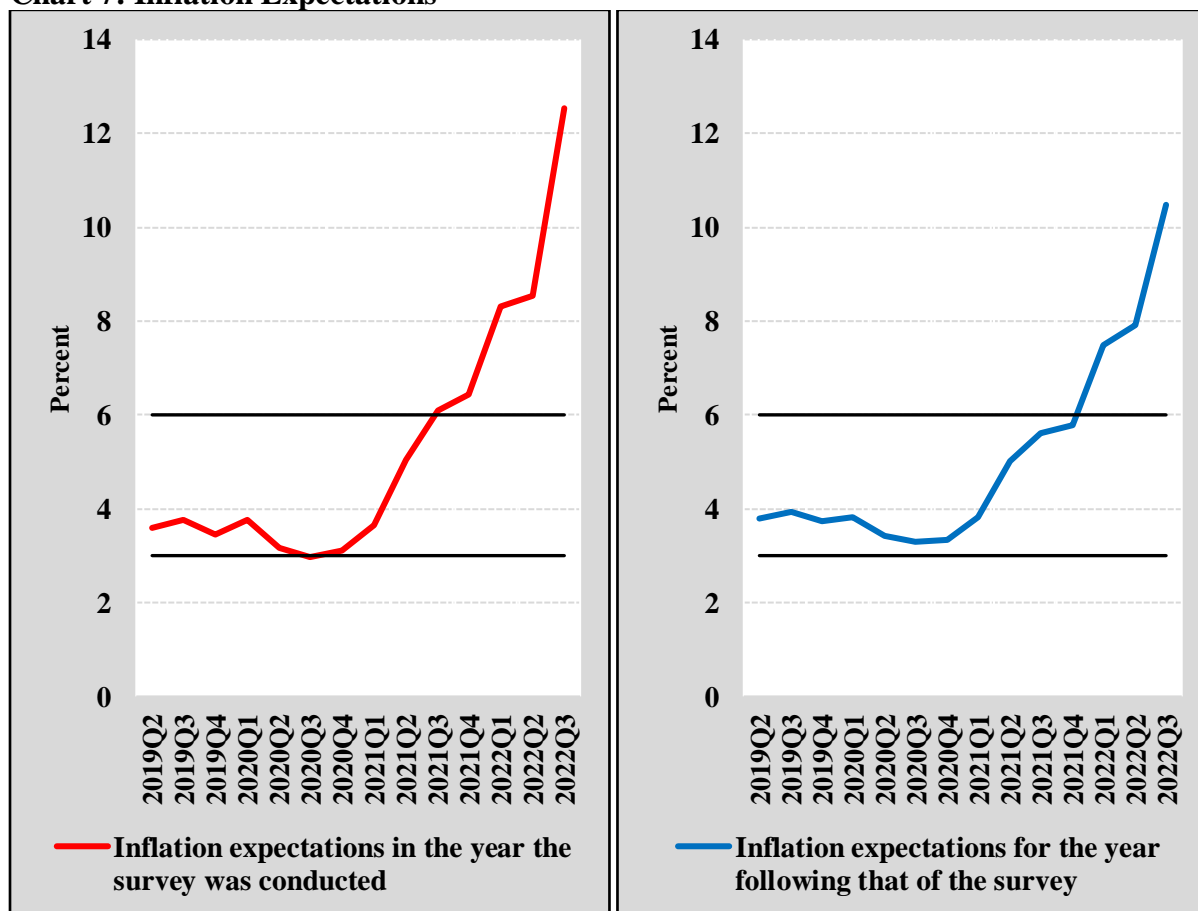
#### 4 Price Developments and Inflation

##### **Cost pressures expected to increase in the third quarter of 2022**

- 4.1 Firms expected cost pressures to continue rising in the third quarter of 2022, mainly attributable to the increase in cost pressures, arising from geopolitical tensions in Eastern Europe. Firms' expectations about domestic inflation increased compared to the previous survey and have surpassed the Bank's 3 – 6 percent objective range in both 2022 and 2023 (Chart 7), averaging 12.5 percent for 2022 (8.5 percent in the previous survey) and 10.5 percent for 2023 (7.9 percent in the previous survey).



**Chart 7: Inflation Expectations**



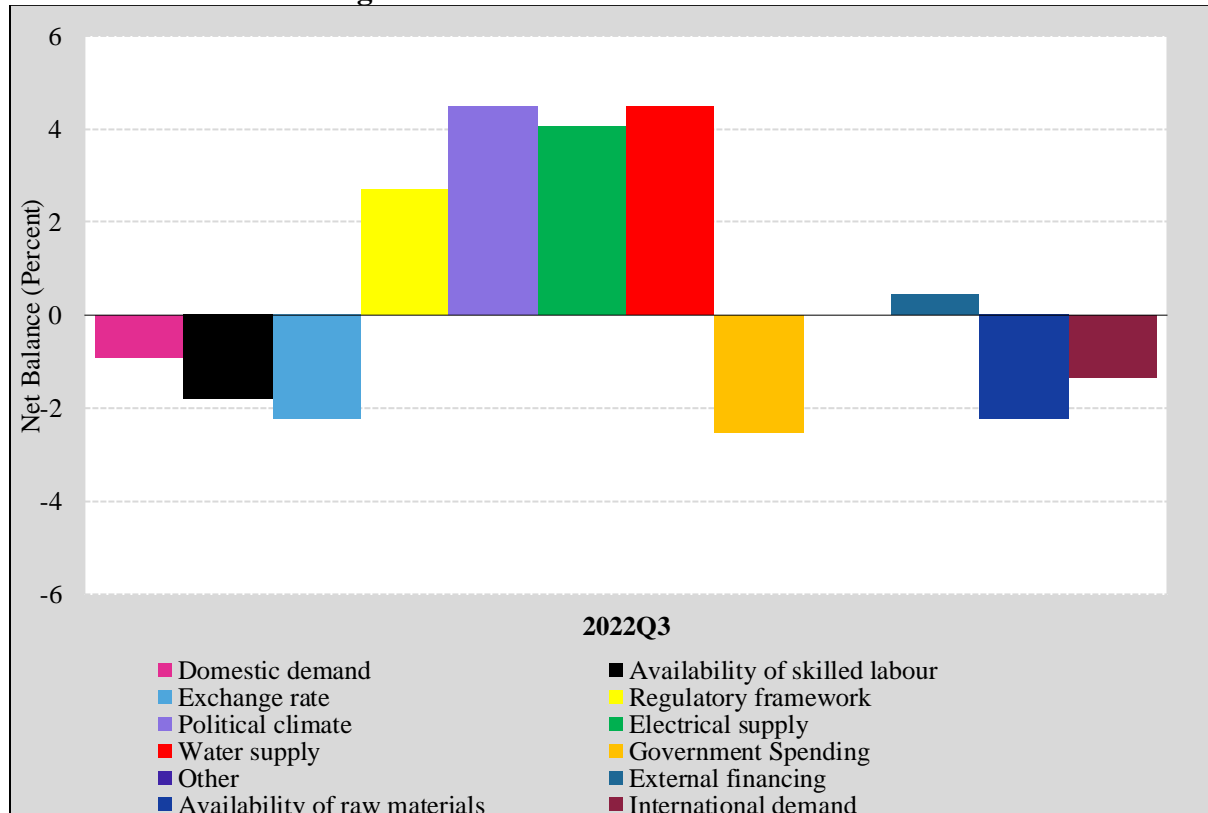
Source: Bank of Botswana

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 2021 are about annual inflation in 2022, while those made in 2022 are about annual inflation in 2023.

## 5. Factors Affecting Business Conditions in the third Quarter of 2022

- 5.1 Insufficient government spending was perceived as a major challenge to doing business mostly by companies in Retail and Accommodation and Transport and Communications; Manufacturing; and Construction and Real Estate sectors. The firms argued that higher government expenditure is required to stimulate the currently subdued economic activity (Chart 8). The other most commonly cited impediments to business operations were shortage of raw materials and unfavourable exchange rate (cited by Construction and Real Estate, as well as Manufacturing sectors); weak domestic demand (Finance and Professional and Administrative Activities, Manufacturing, and Mining and Quarrying); international demand ( Finance and Professional and Administrative Activities, Manufacturing, and Construction and Real Estate); and unavailability of skilled labour (Construction and Real Estate, and Mining and Quarrying).
- 5.2 On the positive side, adequate water and electricity supply, favourable political climate, availability of external financing and effective regulatory framework continued to be viewed as supportive factors to doing business in Botswana in the third quarter of 2022 (Chart 8).

**Chart 8: Factors Affecting Business Conditions**



Source: Bank of Botswana

## 6. Conclusion

6.1 Overall, firms were optimistic about business conditions in the third quarter of 2022 compared to the pessimism that prevailed in the previous quarter. The optimism in the third quarter was reflected in the anticipated improvement in investment in plant, machinery, buildings, vehicles, equipment and other investment for the period. This improvement mainly reflects a continued domestic economic recovery possibly supported by the prevailing accommodative monetary conditions and implementation of the ERTF, among others. However, business conditions are expected to be slightly suppressed in the fourth quarter of 2022, but improve in the 12-month period to September 2023. Firms expect the economy to expand by 3.8 percent in 2022, while inflation expectations remain way above the Bank's objective range of 3 – 6 percent.