

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



MARCH 2021

BANK OF BOTSWANA

1. Introduction

Description of the Survey

- 1.1 The Bank of Botswana's (the Bank) quarterly Business Expectations Survey (BES) 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 over the survey horizon. Furthermore, the survey sought to ascertain the impact of the COVID-19 pandemic on business activities. 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 March 2021 BES Report presents business expectations about the current period (Q1:2021), the second quarter of 2021 (Q2:2021); and the twelve-month period (M12) from April 2021 - March 2022 (Q2:2021-Q1:2022). Thus, the Survey was conducted during the period in which travel restrictions and social distancing requirements are in place, as part of domestic measures aimed at containing the spread of the COVID-19 pandemic. However, the latest restrictions are less stringent compared to 2020, with international travel allowed with proof of a negative COVID-19 Polymerase Chain Reaction (PCR) test performed no more than 72 hours prior to travel and domestic intra-zone movement allowed without permit requirement.
- 1.3 The BES samples 100 businesses from eight economic sectors, namely: Agriculture; Mining; Manufacturing; Water and Electricity; Construction; Trade, Hotels and Restaurants; Transport and Communications; and Finance and Business Services. The response rate for the current survey is 70 percent, 6 percentage points higher than in the December 2020 Survey.
- 1.4 The survey questions focus mainly on anticipated direction of change in selected indicators, i.e., whether conditions are expected to improve, worsen or remain unchanged. The results are then consolidated into an overall measure called 'net balance'. This measure is obtained by summing the positive and negative responses to each question/element by firms belonging to the same sector, which are then weighted by the sector's contribution to nominal gross domestic product (GDP). Thus, by design, the survey responses are predominantly qualitative, yet 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 suggest that firms were pessimistic about economic activity in the first quarter of 2021 compared to the previous quarter (Chart 2), and anticipate tight access to credit across all markets. Meanwhile, firms expect cost pressures to rise in the second quarter of 2021, mainly reflecting the impact of the upward adjustment of Value Added Tax (VAT) by 2 percentage points, which will raise input costs effective April 2021. However, firms expect inflation to be stable and within the Bank's medium-term objective range of 3 - 6 percent in 2021 and 2022.

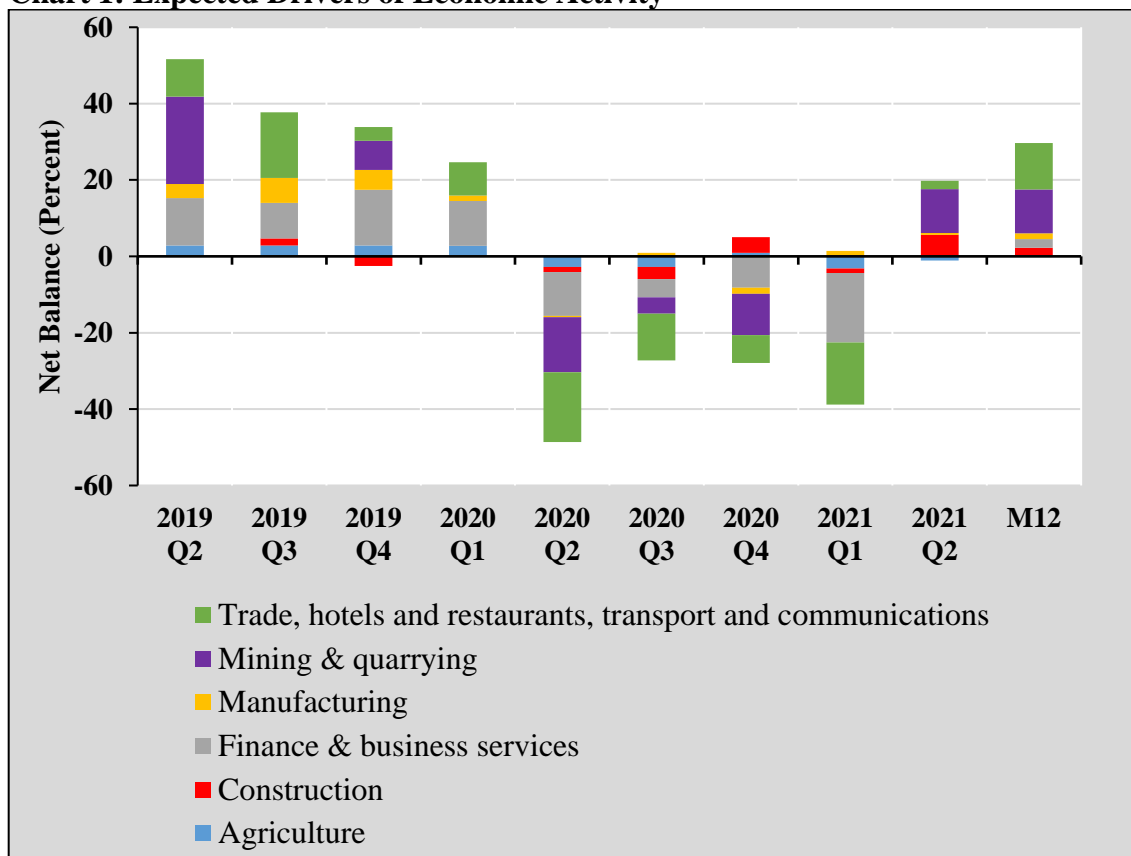
1.6 Furthermore, COVID-19 containment measures have negatively affected business operations in the first quarter of 2021, and the most affected are the Trade, Hotels, Restaurants, Transport and Communications¹; Finance and Business Services; Mining; and the Construction sectors. In general, firms anticipate that their businesses will recover from the impact of COVID-19, a year after March 2021.

2. Economic Performance and Business Conditions

Output is expected to increase in 2021

2.1 Firms expect overall output to expand by 2.2 percent in 2021, which is a significantly less optimistic view compared to the projected 8.8 percent and 8.3 percent growths by the Ministry of Finance and Economic Development, and the International Monetary Fund, respectively. On a quarterly basis, firms expect GDP to also increase by 2.2 percent in the second quarter of 2021, consistent with the anticipated improvement in business conditions and the envisaged global economic recovery in 2021 (Chart 1), even while recovery is threatened by the emergence of the new variants of COVID-19 and global vaccine rollout shortcomings.

Chart 1: Expected Drivers of Economic Activity

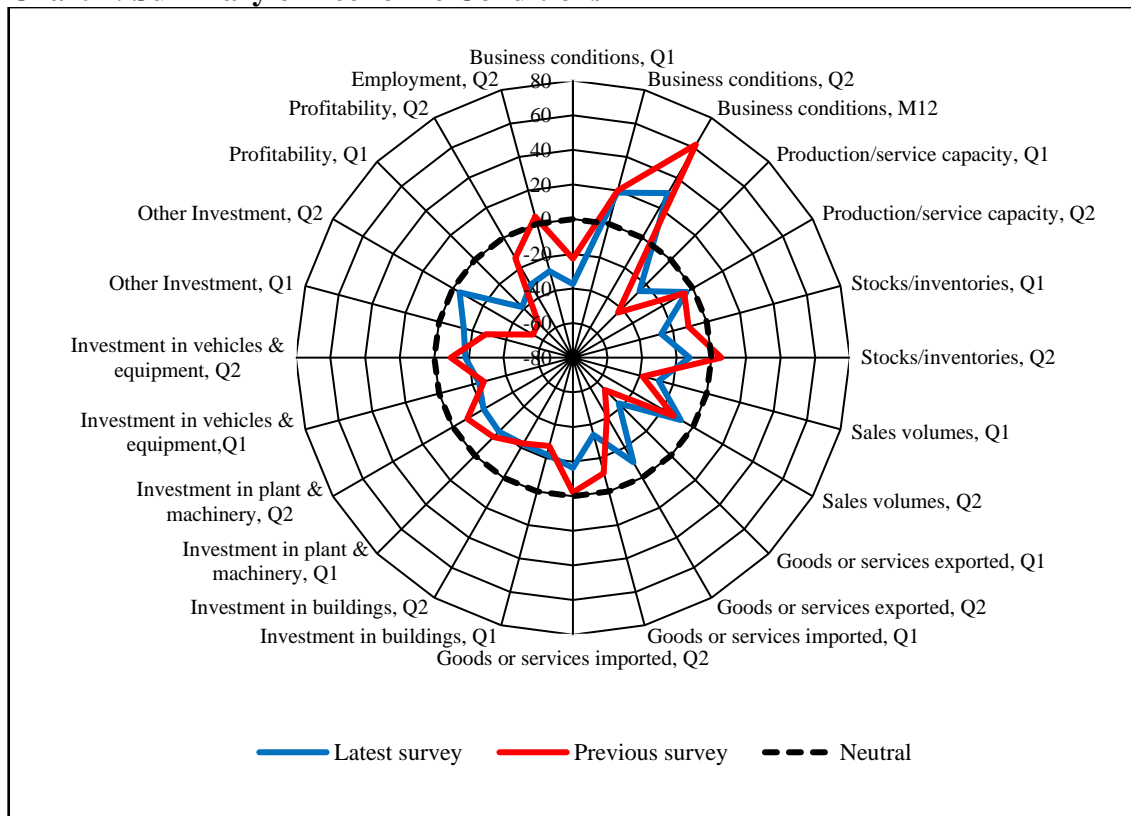


Note: The chart shows net balances on each sector's expectations about economic performance from the second quarter of 2019 to the second quarter of 2021 and the 12 months period to March 2022. The net balances are weighted by each sector's relative share in GDP. For example, for a sector with (P+N) members in the sample, of which 'P' indicated positive perceptions and 'N' negative, with a weight of Z percent in nominal GDP, the weighted net balance is calculated as $[(P-N)/P+N] \times 100 \times Z$.

¹ The Trade, Hotels and Restaurants, and Transport and Communications sectors are merged for ease of analysis since the two are interconnected.

- 2.2 Notably, firms in the Trade, Hotels, Restaurants, Transport and Communications sector were more pessimistic about economic growth prospects in the first quarter of 2021 compared to the previous quarter. This is consistent with the continued periodic COVID-19 movement restrictions, which leads to cancelled tourist activity and bookings of accommodation and restaurant facilities. Firms across all sectors, except for the Agriculture and Finance and Business Services sectors, are optimistic about economic performance in the second quarter of 2021.
- 2.3 On an annual basis, firms across all sectors are optimistic about economic recovery in the period to March 2022, led by the Trade, Hotels, Restaurants, Transport and Communications sector. The perceived sluggish economic performance in the current survey compared to the previous one is associated with the resurgence of infections and the disruptions to business trade arising out of the COVID-19 pandemic containment measures and possibly the slow roll-out of the COVID-19 vaccine (Chart 2).

Chart 2: Summary of Economic Conditions

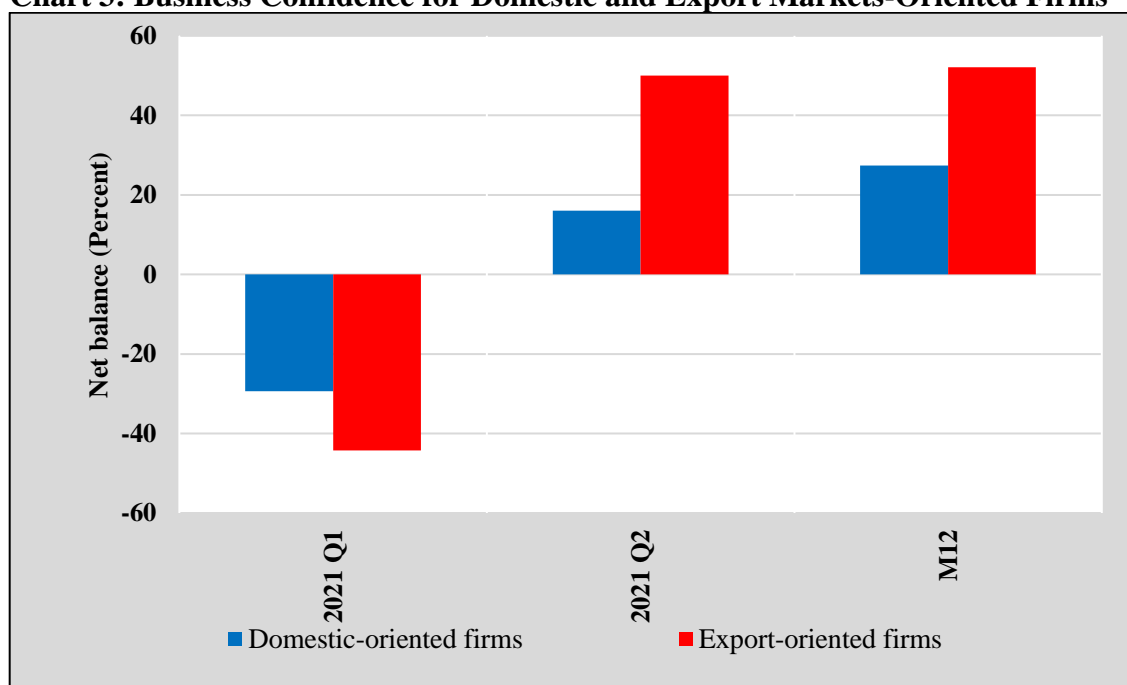


Notes: The chart summarises firms' expectations about business conditions. The blue line represents the results of the March 2021 Survey, while the red line represents the results of the December 2020 survey. The black dashed line is the static position, representing unchanged expectations. The net balances 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: Q1 denotes perceptions about business conditions in the first quarter of 2021, Q2 represents expectations about business conditions for the second quarter of 2021, while M12 depicts the perceived business conditions for the twelve-month period from April 2021 to March 2022. Similarly, the red line denotes perceptions about business conditions as envisaged in the previous survey.

- 2.4 As reflected in Chart 3, optimism among domestic market-oriented firms improves markedly in the second quarter of 2021 compared to the first quarter of 2021, in line with the projected improvements in economic prospects for 2021 compared to 2020. The level of optimism rises further in the twelve-month period to March 2022 (M12) consistent with the anticipated continued domestic economic recovery, going forward. Confidence in the domestic market-oriented firms is mainly driven by firms in the Mining and Quarrying (as diamond trade, retail sales, investment and general economic performance are expected to improve, in the near future); Construction; and Trade, Hotels, Restaurants, Transport and Communications.
- 2.5 Optimism among export market-oriented firms about business conditions increase the most in the second quarter of 2021 and in the twelve-month period from April 2021-March 2022. The firms, predominantly in the Mining and Quarrying and the Trade, Hotels, Restaurants, Transport and Communications sectors, expect to increase output as trade conditions improve (Charts 1 and 3).

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

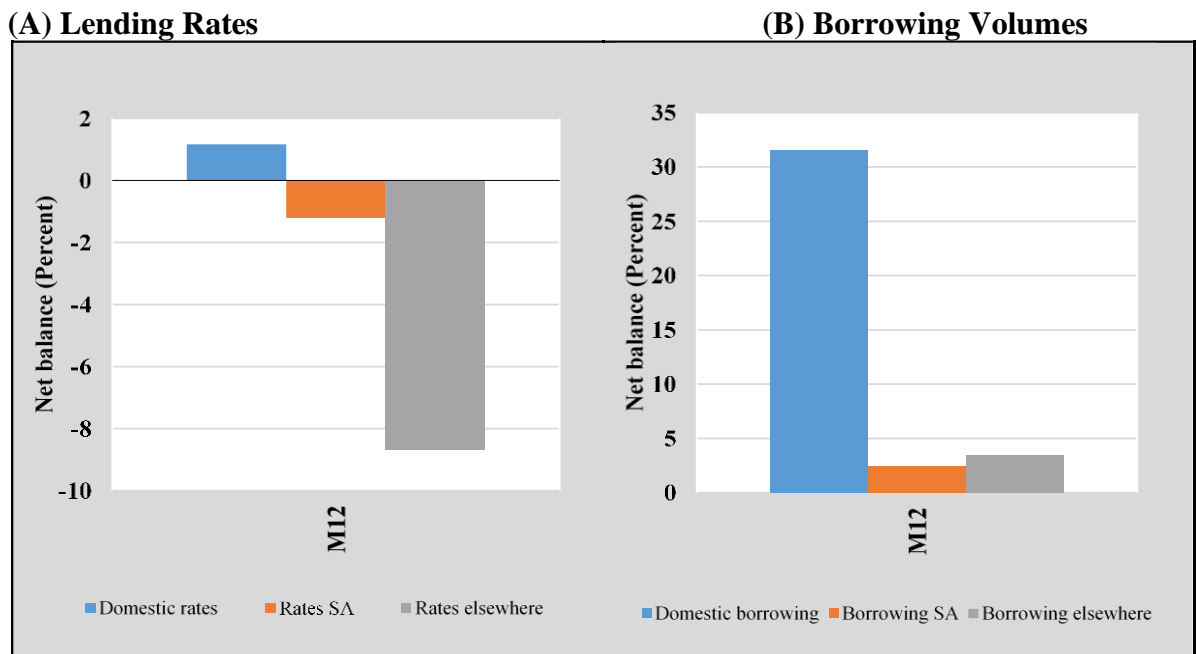


3. Expected Lending Rates and Volume of Borrowing

Lending rates are expected to increase in the domestic market in 2021 and 2022

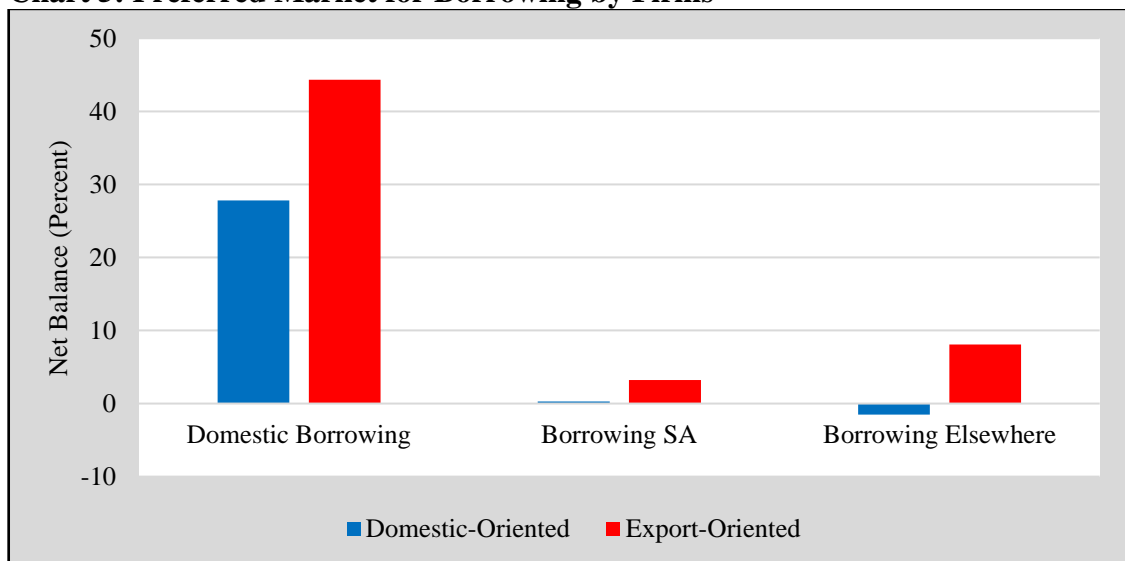
- 3.1 In general, firms expect borrowing costs to increase, albeit moderately, in the domestic market during 2021 to March 2022. On the other hand, businesses expect lending rates to decrease in foreign markets.
- 3.2 Regarding borrowing volumes, firms expect an increase in credit across all markets in the twelve-month period to March 2022, consistent with improvement in business conditions and reduction in lending rates in external markets (Chart 4). The expected increase in domestic borrowing in spite of the expected rise in borrowing costs, could indicate relative easier access to domestic than external credit.

Chart 4: Lending Rates and Borrowing Volumes



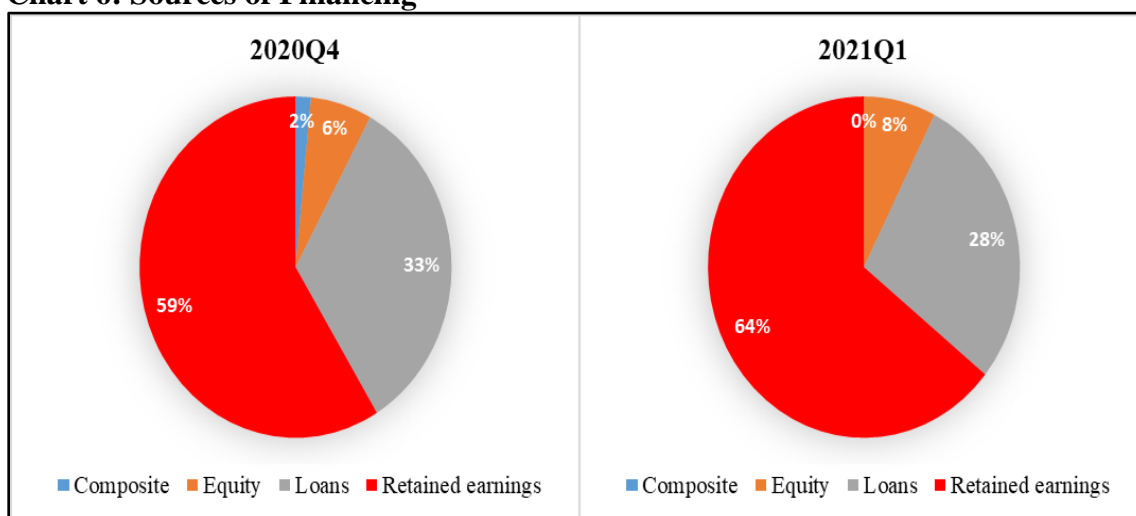
3.3 Both domestic and export market oriented firms perceived overall access to credit to be tight in the first quarter of 2021, even though export market oriented firms expected interest rates, one of the determinants of credit accessibility, to be lower than in the previous quarter. All firms, irrespective of the target market, prefer to borrow domestically. Businesses that predominantly target the domestic market rarely prefer to borrow from the South African market in the year to March 2022. On the other hand, export market-oriented firms prefer to borrow more from 'elsewhere' than in South Africa (Chart 5).

Chart 5: Preferred Market for Borrowing by Firms



3.4 A significant number (approximately 50 percent) of the surveyed firms stated that their decision on the market from which to obtain funding was informed by accessibility, while 26 percent cited availability of required loan products. Meanwhile, 23 percent of the firms indicated that their decisions on acquisition of credit were influenced by affordability of suitable credit facilities, while 2 percent indicated that their decision was informed by a combination of more than one factor (e.g., accessibility and availability or affordability and availability). As in the previous survey, most firms prefer to finance their business operations mainly from retained earnings and loans (Chart 6). Retained earnings as a source of finance was more prevalent among the Manufacturing; Trade, Hotels, Restaurants, Transport and Communications; and Mining and Quarrying sectors. In contrast, most of the firms in the Finance and Business Services sector planned to fund their businesses through loans.

Chart 6: Sources of Financing



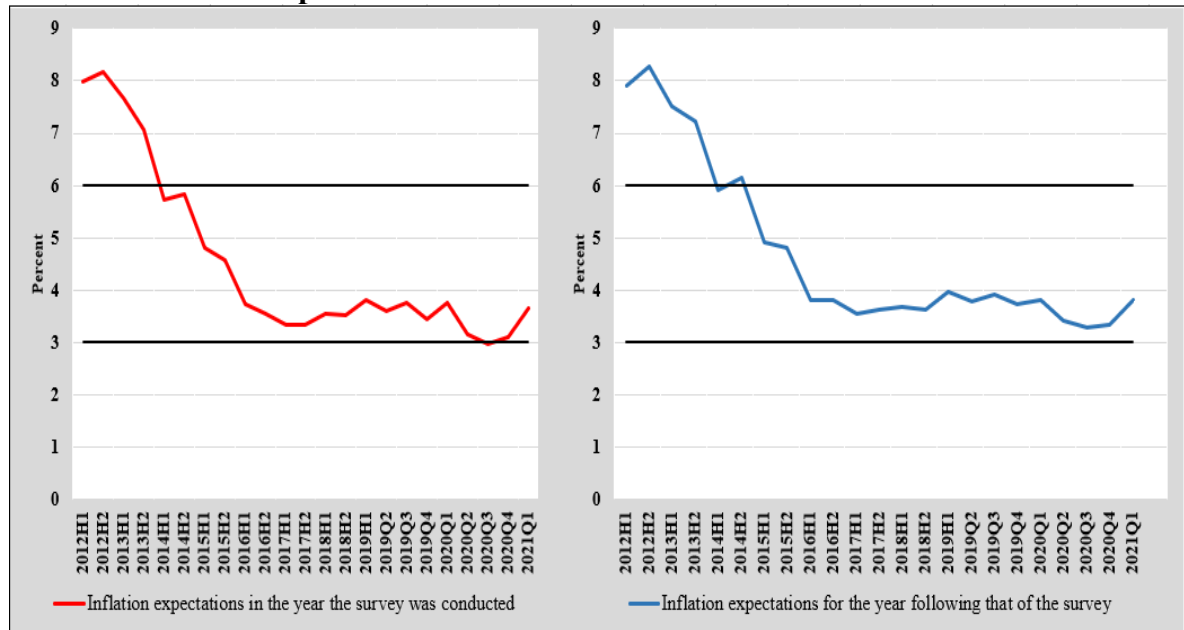
Note: Composite refers to preference for a combination of more than one source of financing (e.g. retained earnings and loans or equity and loans).

4. Price Developments and Inflation

Cost pressures expected to increase in the second quarter of 2021

4.1 Overall, firms expect cost pressures to rise substantially in the second quarter of 2021, mainly attributable to the expected increase in all input costs (except for ‘other’ costs), in line with the expected increase in inflation, following the recent upward adjustment in some tax rates such as VAT and withholding tax on dividends to residents, increase in fuel levy, as well as introduction of levy on sugar sweetened beverages effected in April 2021. Firms’ expectations about domestic inflation have generally been on a downward trend since 2013, and within the Bank’s inflation objective range of 3-6 percent effective 2014 (Chart 7). Firms’ inflation expectations for 2020 and 2021 averaged 3.7 percent and 3.8 percent respectively, suggesting that inflation expectations are well anchored within the Bank’s objective range.

Chart 7: Inflation Expectations



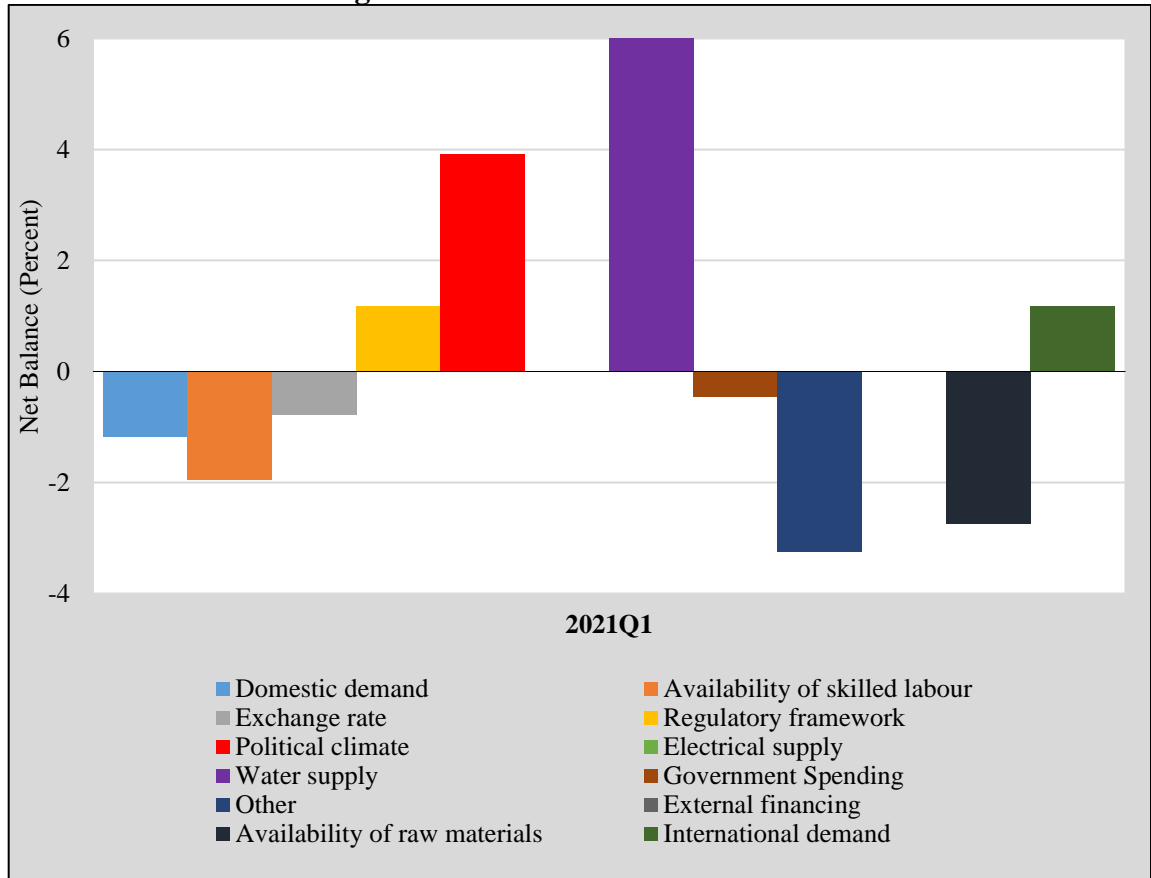
Note: The chart shows the average of inflation expectations across different surveys. Previously, the surveys were conducted biannually, but effective 2019 Q2, surveys are conducted on a quarterly basis. The bi-annual survey horizons comprised the half-year in which the survey was conducted/current period (H1) and the next half-year (H2).

5. Factors Affecting Business Conditions

COVID-19 restrictions ('Other') perceived to be a major challenge to doing business

- 5.1 In general, firms, predominantly in the Hotels, Restaurants, Transport and Communications sector, highlighted COVID-19 restrictions as the greatest challenge to their business operations in the first quarter of 2021 (Chart 8). Difficulty in accessing financing was the second most commonly cited impediment to doing business, especially by firms in the Financing and Business Services sector. Furthermore, unavailability of skilled labour was also considered a challenge to doing business in Botswana, particularly by firms in the construction and mining sectors, reflecting reported difficulties experienced in recruiting foreign skilled labour. Lastly, weak domestic demand was cited as a challenge to doing business in Botswana, due to perceived slow growth in household disposable incomes following COVID-19 containment measures.
- 5.2 On the other hand, water supply and the local political climate were viewed as supportive factors to doing business in Botswana in the first quarter of 2021 (Chart 8). This contrasts with water supply challenges of the past.

Chart 8: Factors Affecting Business Conditions



6. Conclusion

- 6.1 Overall, firms were pessimistic about business conditions in the first quarter of 2021 compared to the previous quarter. The pessimism outlook in the current survey, reflects the anticipated contraction in production; inventories; sales; profitability; exports and imports of goods and services; and investment mainly due to the disruptions to trading by the COVID-19 pandemic containment measures. Firms anticipate improvement in business conditions in the second quarter of 2021 and the twelve-month period from April 2021-March 2022, in line with the anticipated recovery in global economic activity associated with the gradual easing of COVID-19 pandemic containment measures. Firms expect the economy to expand by 2.2 percent in 2021, while inflation is anticipated to average 3.7 percent and 3.8 percent in 2021 and 2022, respectively.
- 6.2 The majority of the surveyed firms indicated that COVID-19 containment measures have negatively affected business operations in the current period. However, businesses anticipate to fully recover from the impact of the COVID-19 pandemic in a year from March 2021.