

# THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



DECEMBER 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 December 2022 BES Report presents business expectations about the current period (Q4:2022), the first quarter of 2023 (Q1:2023); and the twelve-month period (M12) from January 2023 - December 2023 (Q1:2023-Q4:2023).
- 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 54 percent compared to 57 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**

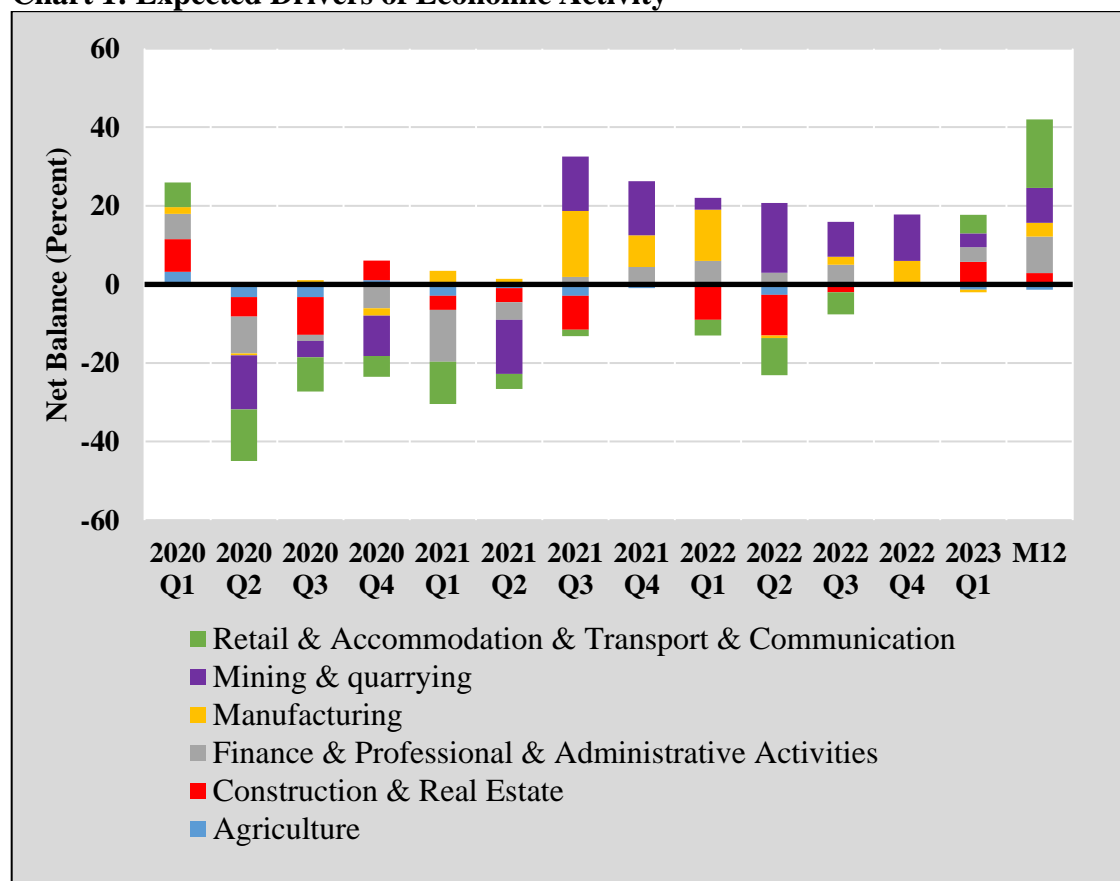
- 1.5 The results of the current BES suggest that firms are more optimistic about business conditions in the fourth quarter of 2022 compared to the previous quarter. The optimism is reflected by firms' expectations of positive domestic economic performance, hence, some expected improvements in sales volumes, profitability, and investment in plant, machinery, buildings, as well as other investment, compared to the September 2022 survey. Firms anticipate tight access to credit across all markets as central banks continue to increase policy interest rates and/or maintain the high rates amid high levels of inflation. Firms also expect cost pressures to remain high in the first quarter of 2023, 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 increase moderately in 2022

- 2.1 Firms expect overall output to expand by 4.4 percent in 2022, slightly above 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 a quarterly basis, in general, firms expect GDP to increase by 3.8 percent and 3.9 percent in the fourth quarter of 2022 and the first quarter of 2023, respectively.

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



Source: Bank of Botswana

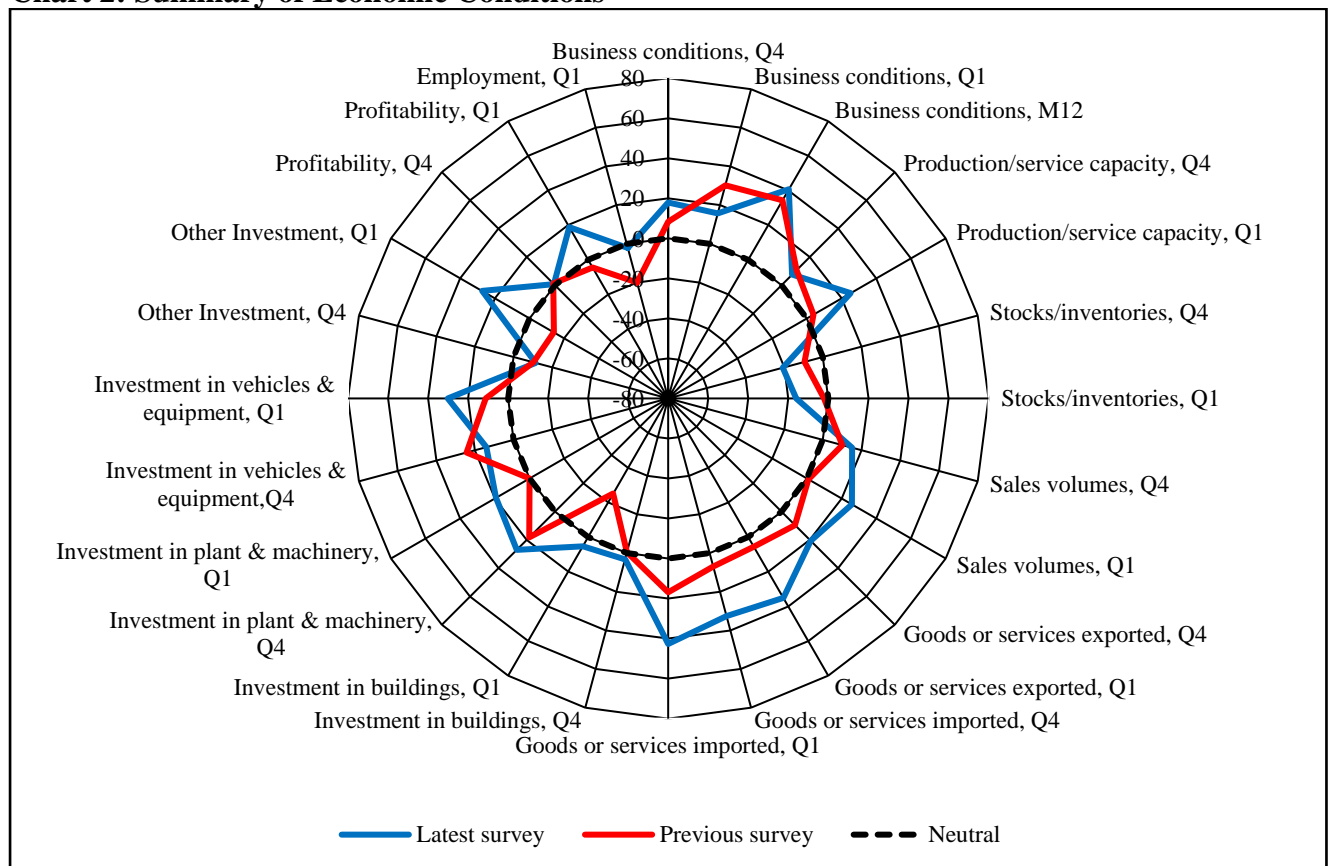
Note: The chart shows net balances on each sector's economic performance expectations for the first quarter of 2020 to M12 (the period from January 2023 to December 2023). The net balances are weighted by each sector's relative share in GDP. For example, for a sector with (P+N) members in the sample, 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  $[(P-N)/P+N] \times 100 \times Z$ .

- 2.2 Notably, firms in the Mining and Quarrying, and Manufacturing sectors were optimistic about economic growth prospects in the fourth quarter of 2022, while those in the Construction and Real Estate; Retail, Accommodation, Transport and Communications; and Finance, Professional and Administrative Activities were impartial (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 and Manufacturing) are optimistic about the first quarter of 2023 and the year ending

December 2023, possibly supported by the continued implementation of the Economic Recovery and Transformation Plan (ERTP), among others.

2.3 Overall, firms expect business conditions to improve in the fourth quarter of 2022 (Chart 2). They anticipate improvements in sales volumes, profits, and investment in plant, machinery, buildings, as well as other investment, in the fourth quarter of 2022 compared to the third quarter. These, in combination with expectations of increased growth in the Mining and Quarrying, and Manufacturing sectors, contribute to the improved expectations about overall business conditions. Expectations about business conditions improved further in the 12-months period to December 2023.

**Chart 2: Summary of Economic Conditions**



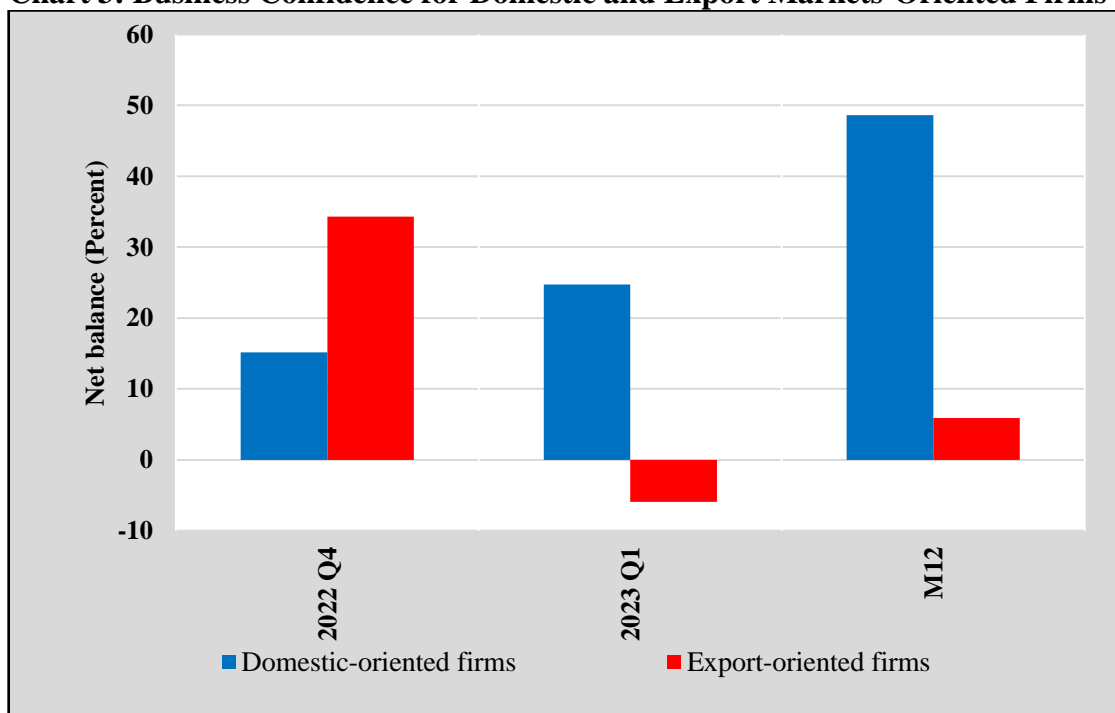
Source: Bank of Botswana

Notes: The chart summarises firms’ expectations about business conditions. The blue line represents the results of the December 2022 Survey, while the red line represents the results of the September 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: Q4 denotes perceptions about business conditions in the fourth quarter of 2022, Q1 represents expectations about business conditions for the first quarter of 2023, while M12 depicts the perceived business conditions for the twelve-month period from January 2023 to December 2023. 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 first quarter of 2023, compared to the fourth quarter of 2022. The level of optimism improves further in the twelve-month period to December 2023 (M12), consistent with the anticipated continued domestic economic recovery. Confidence in the domestic market-oriented firms is mainly driven by domestic market oriented firms within the Mining and Quarrying, and Manufacturing sectors.
- 2.5 Meanwhile, export-oriented firms are also optimistic about business conditions in the fourth quarter of 2022. However, they become pessimistic in the first quarter of 2023, possibly due to the continued expected disruptions in the world markets and inflationary pressures arising from the ongoing Russia-Ukraine war. However, firms regain their optimism in the year ending December 2023

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



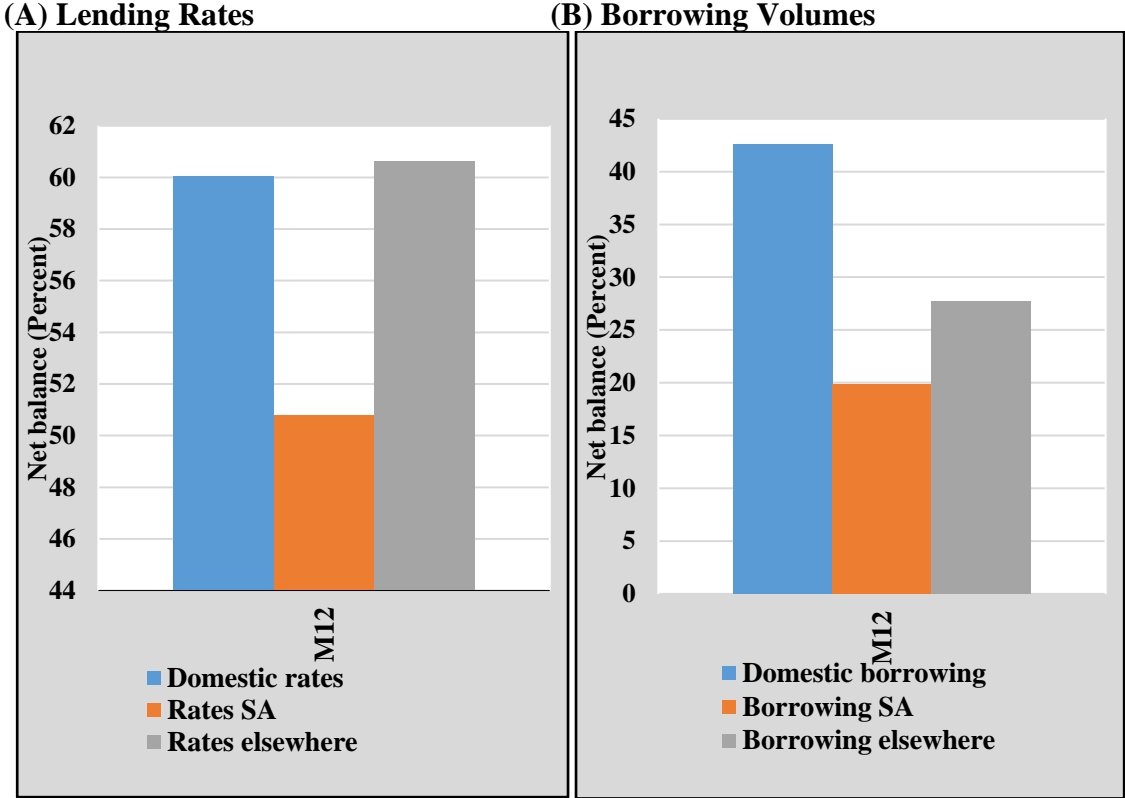
Source: Bank of Botswana

### 3. Expected Lending Rates and Borrowing Volumes

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

- 3.1 Firms expect lending rates and the volume of borrowing from all markets (domestic, South African and elsewhere) to increase in the 12 months period to December 2023, as depicted by the positive net balances (Chart 4). Notwithstanding the expected increase in lending rates, borrowing volumes are anticipated to expand, consistent with the expected rise in investment, supported by the anticipated improvement in domestic economic performance during the period.

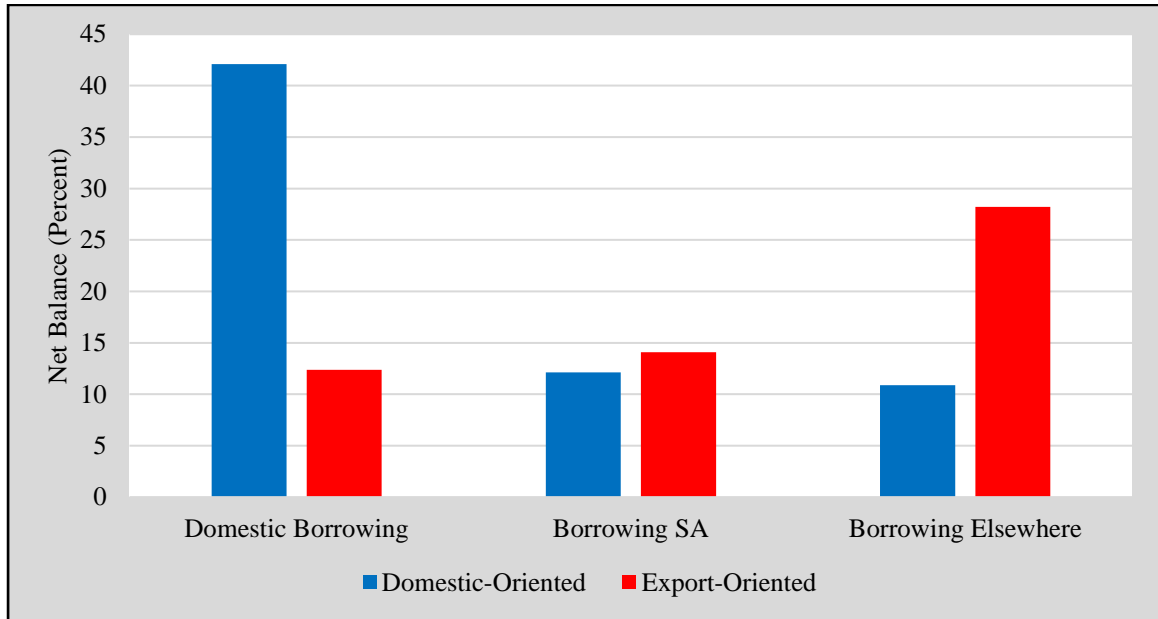
**Chart 4: Borrowing Volumes and Lending Rates**



Source: Bank of Botswana

3.2 Firms in the domestic and export-oriented markets perceived access to credit to be tight in the fourth quarter of 2022, mainly due to the increase in interest rates following policy tightening in the second and third quarters of 2022 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, while export-oriented firms prefer to borrow from elsewhere.

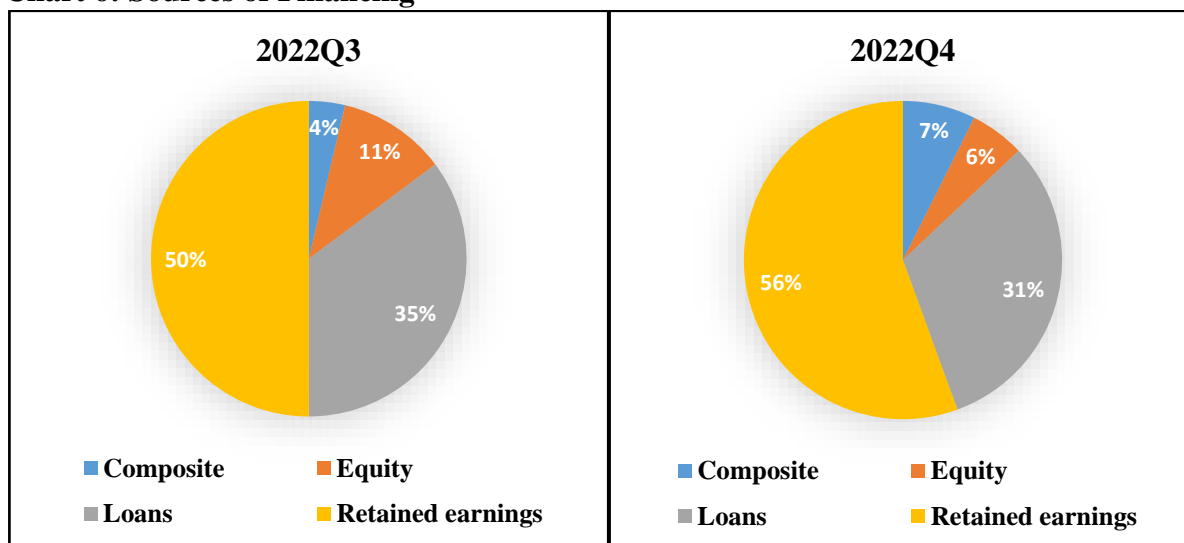
**Chart 5: Preferred Credit Market**



Source: Bank of Botswana

3.3 Approximately 43 percent of the surveyed firms indicated that their choice of where to borrow was predicated on accessibility, while 24 percent indicated that their borrowing decisions were influenced by affordability of appropriate credit facilities. Meanwhile, 22 percent of the firms cited availability of suitable loan products, and 11 percent cited availability and affordability of the required loan products as determinants of their credit market. As in the previous survey, most firms prefer to finance their business operations mainly from retained earnings, followed by loans. However, in the current survey, the next most preferred financing method is composite (combination of financing), followed by equity, a reversal of preferences in the previous one (Chart 6). Retained earnings as a source of financing was prevalent among the Mining and Quarrying; Manufacturing; Retail, Accommodation, Transport and Communications; and Construction and Real Estate sectors. On the other hand, most of the firms in the Finance, Professional and Administrative Activities sector preferred loans as a funding source.

**Chart 6: Sources of Financing**



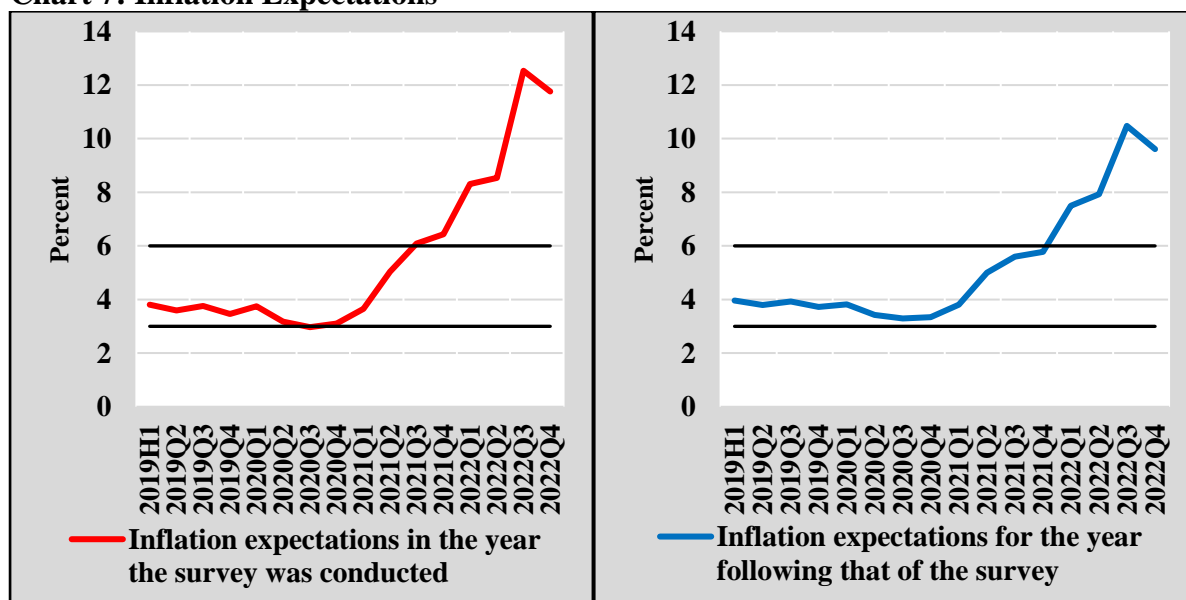
Source: Bank of Botswana

## 4 Price Developments and Inflation

### Cost pressures expected to increase in the fourth quarter of 2022

4.1 Firms expect cost pressures to continue rising in the fourth quarter of 2022, due to the continued geopolitical tensions in Eastern Europe. Firms' expectations about domestic inflation decreased, compared to the previous survey, but still surpassed the Bank's 3 – 6 percent objective range in both 2022 and 2023 (Chart 7), averaging 11.8 percent for 2022 (12.5 percent in the previous survey) and 9.6 percent for 2023 (10.5 percent in the previous survey). The downward revision of expectations is in line with the Bank's revision of the inflation outlook in December 2022.

**Chart 7: Inflation Expectations**



Source: Bank of Botswana

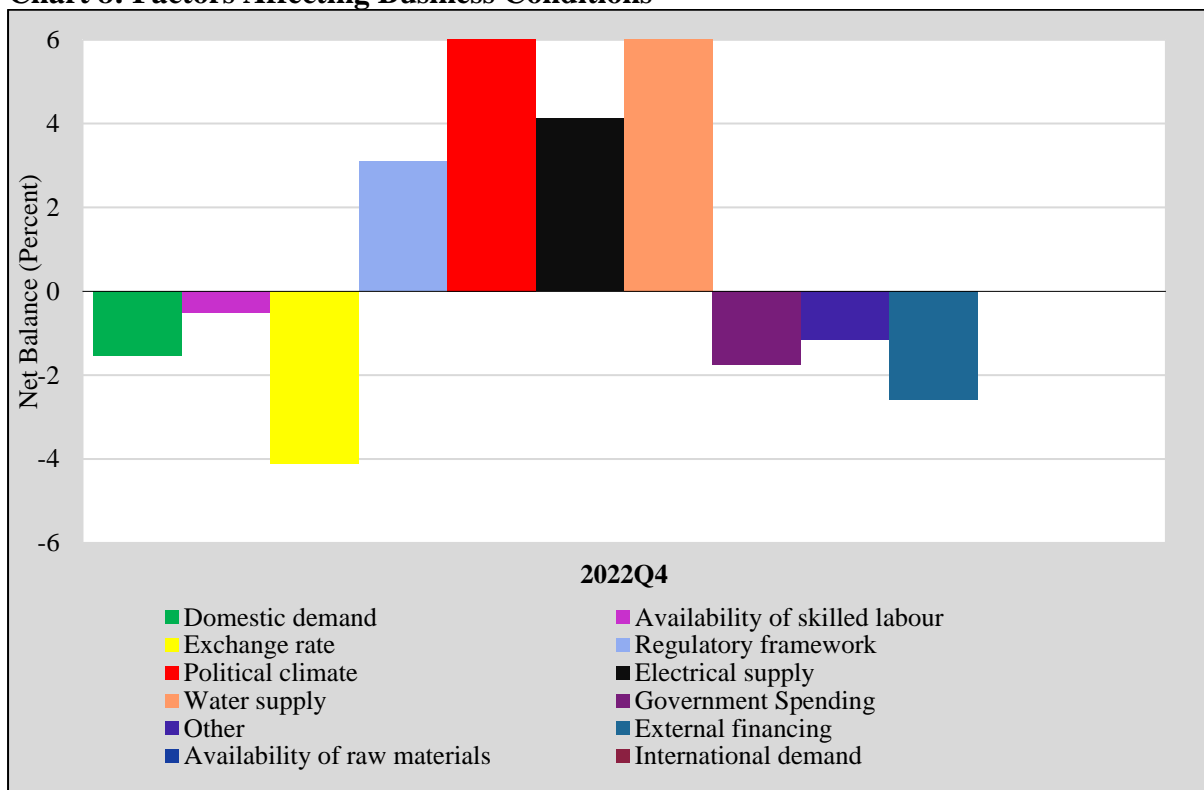
Notes: The chart shows the average of inflation expectations across different surveys. In the case of inflation expectations for the year following that of the survey, the quarterly inflation expectations made in 2021 are about annual inflation in 2022, while those made in 2022 are about annual inflation in 2023.



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

- 5.1 Companies, specifically those in the Mining and Quarrying; Manufacturing; and Construction and Real Estate sectors viewed the rand/Pula exchange rate as unfavourable and, therefore, costly to doing business as the Pula was not strong enough against the South African rand. This is because these firms source most of their raw materials from South Africa (Chart 8). The other most commonly cited impediments to business operations were inability to raise external finance (cited by Finance, Professional and Administrative Activities; Retail, Accommodation, Transport and Communications; and Manufacturing sectors), insufficient government spending (Manufacturing; Construction and Real Estate; Retail, Accommodation, Transport and Communications; and Finance, Professional and Administrative Activities), weak domestic demand (Finance, Professional and Administrative Activities; Manufacturing; Construction and Real Estate; and Retail, Accommodation, Transport and Communications) as well as unavailability of skilled labour (Construction and Real Estate, and Manufacturing).
- 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 fourth quarter of 2022 (Chart 8).

**Chart 8: Factors Affecting Business Conditions**



Source: Bank of Botswana

## **6. Conclusion**

- 6.1 Overall, firms were more optimistic about business conditions in the fourth quarter of 2022 compared to the previous quarter. The optimism in the fourth quarter was reflected in the anticipated improvement in investment in plant, machinery, buildings, and other investment for the period. This improvement mainly reflects a continued domestic economic recovery following relaxation of COVID-19 restrictions as well as implementation of the ERTTP, among others. However, business conditions are expected to be slightly suppressed in the first quarter of 2023, but improve in the 12-month period to December 2023. Firms expect the economy to expand by 4.4 percent in 2022, and inflation expectations declined but remain above the Bank's objective range of 3 – 6 percent.