

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



JUNE 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 June 2023 BES report presents business expectations about the current period (Q2:2023), the third quarter of 2023 (Q3:2023); and the 12-month period (M12) from July 2023 - June 2024 (Q3:2023 – Q2:2024).
- 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 60 percent compared to 75 percent in the March 2023 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.

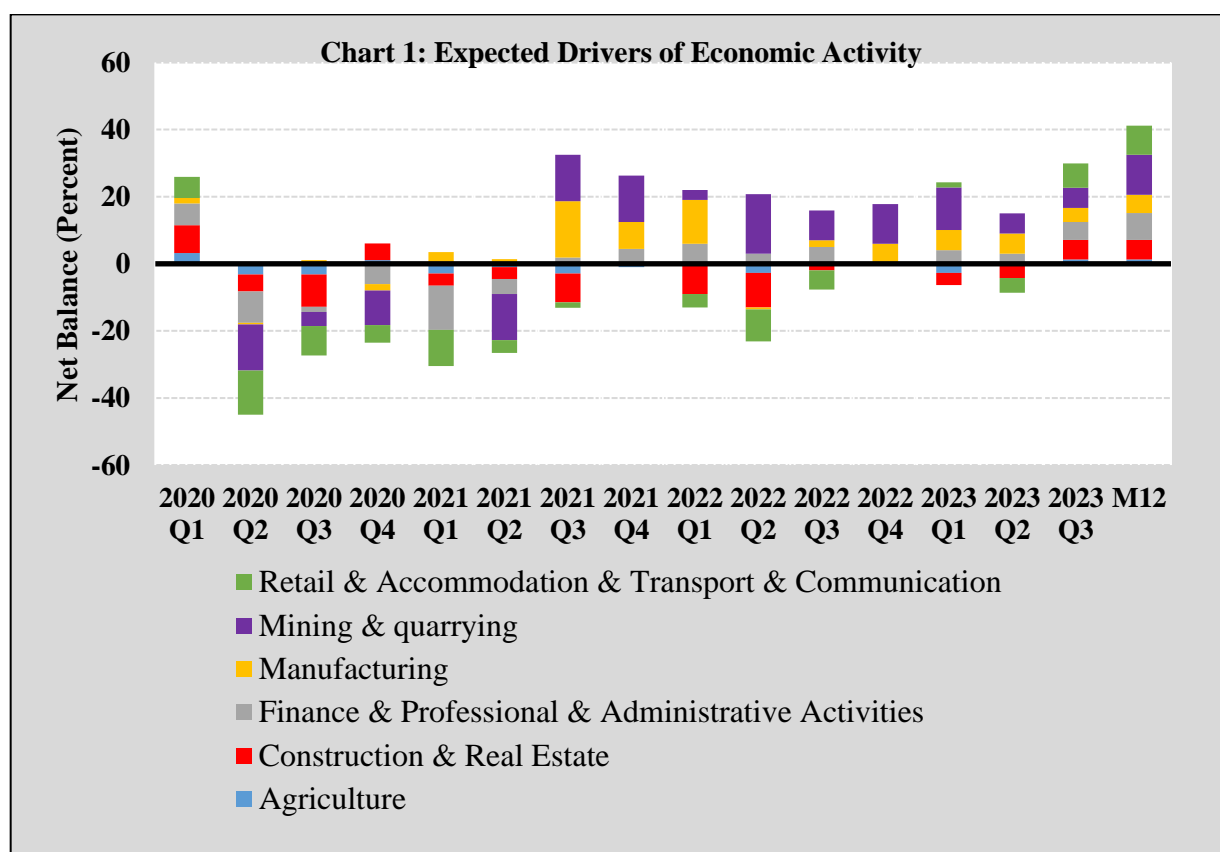
Highlights of the Survey Results

- 1.5 The results of the current BES indicate that firms are less optimistic about business conditions in the second quarter compared to the previous survey (first quarter of 2023). 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 high interest rates amid elevated inflation. Firms expect cost pressures to be subdued in the second 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 output of the Mining and Quarrying; Manufacturing; and Finance, Professional and Administrative Activities sectors is expected to have a positive impact on aggregate 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 4.2 percent in 2023, in line with projections of 4 percent by the Ministry of Finance and 3.7 percent by the International Monetary Fund for the same period. On quarterly basis, in general, firms expect GDP to increase by 3.7 percent and 4.1 percent in the second and third quarters of 2023, respectively.
- 2.2 Notably, firms in the Mining and Quarrying; Manufacturing; and Finance, Professional and Administrative Activities sectors were optimistic about economic growth prospects in the second quarter of 2023, while those in the Retail Accommodation, Transport and Communications; and Construction and Real Estate 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 are optimistic about the third quarter of 2023 and the year ending June 2024, possibly supported by government interventions to support economic activity, including through continued implementation of the Economic Recovery and Transformation Plan and the potentially expansionary two-year Transitional National Development Plan.

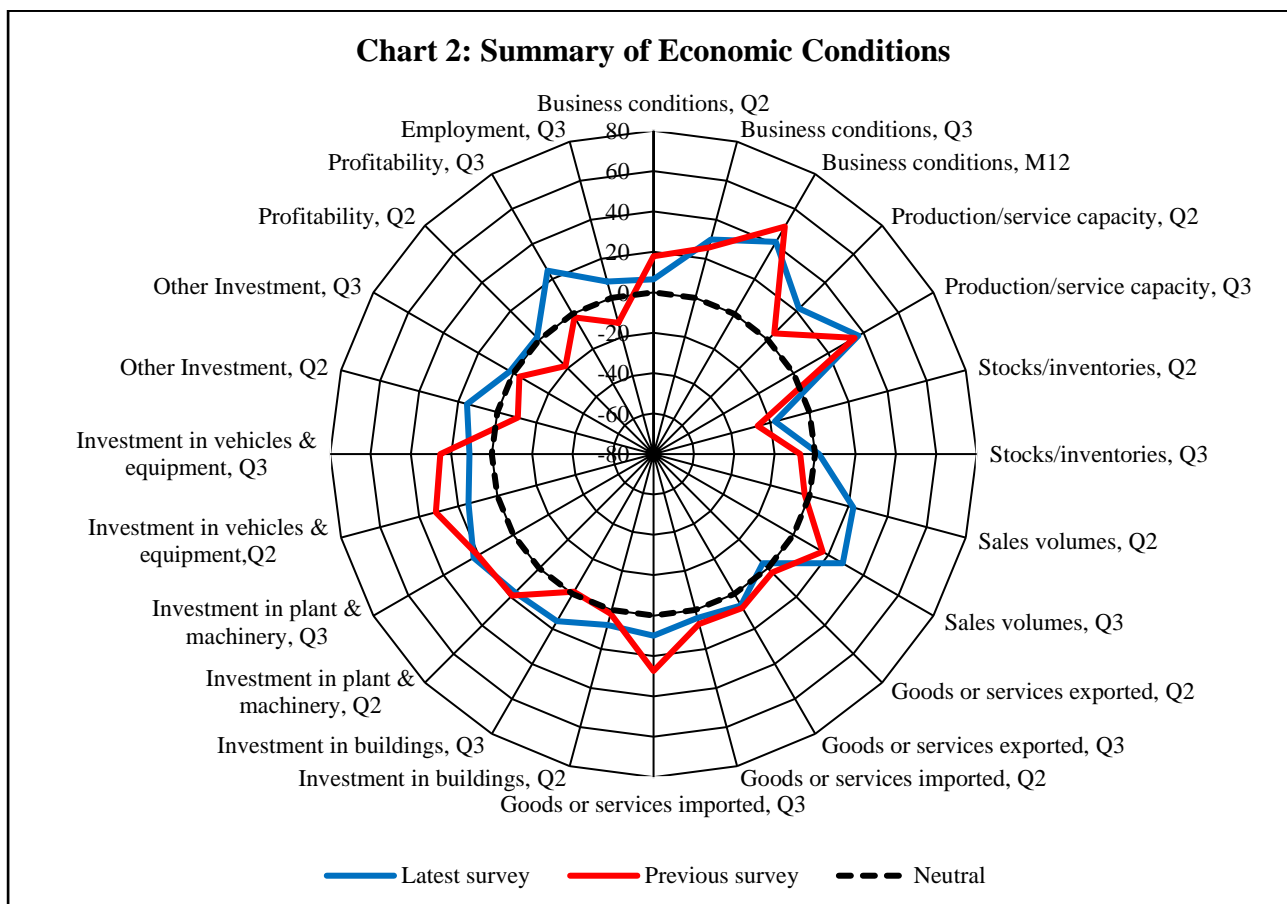


Source: Bank of Botswana

Notes:

- The chart shows net balances on each sector's economic performance expectations for the first quarter of 2020 to M12 (the period from July 2023 to June 2024).
- 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 led by the Mining and Quarrying; Manufacturing; and Finance, Professional and Administrative Activities sectors expect business conditions to remain positive in the second quarter of 2023 (Chart 2). However, the perceived improvement in economic performance in the current quarter is less than in the previous quarter. The reduced level of optimism in the current quarter is reflected by the anticipated deceleration in exports and imports of goods and services; and investment in plant and machinery mainly due to the expected slowdown in economic activity arising from the geopolitical crisis in Eastern Europe and second round effects of the COVID-19 pandemic.



Source: Bank of Botswana

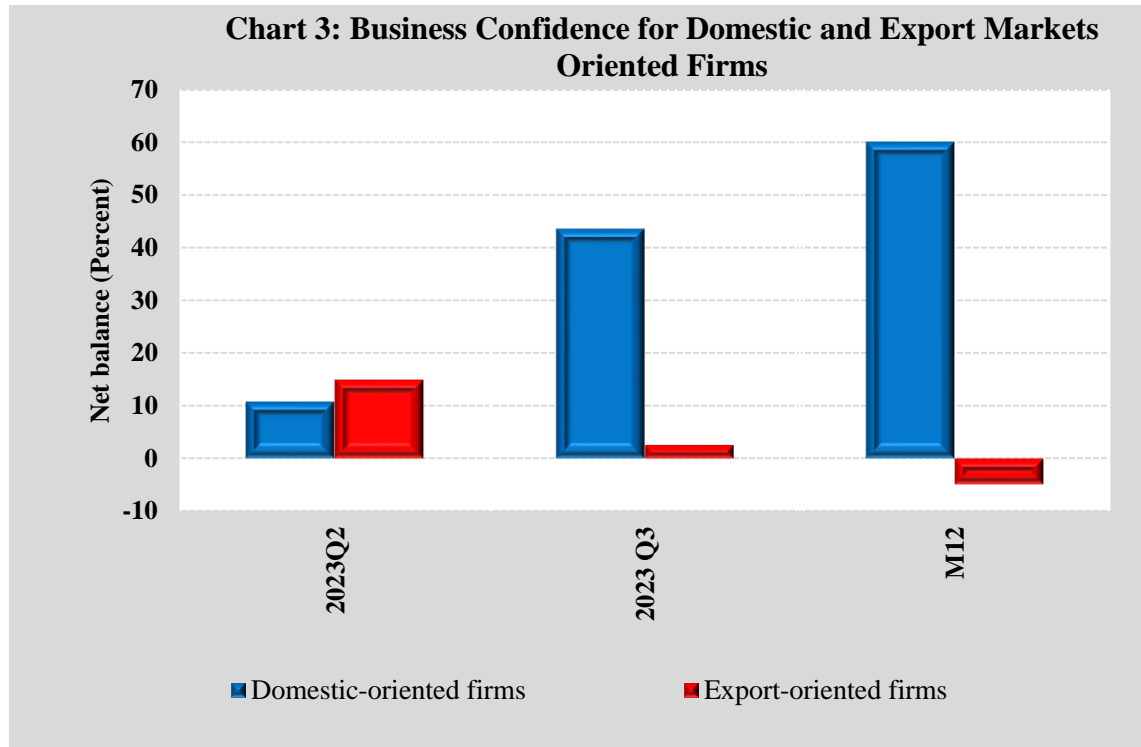
Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the June 2023 Survey, while the red line represents the results of the March 2023 Survey. The black dashed 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: Q2 denotes perceptions about business conditions in the second quarter of 2023, Q3 represents expectations about business conditions for the third quarter of 2023, while M12 depicts the perceived business conditions for the 12-month period from July 2023 to June 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 third quarter of 2023, compared to the second quarter of 2023. The level of optimism improves further in the 12-month period to June 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;

and Finance, Professional and Administrative Activities sectors.

- 2.5 Meanwhile, export-oriented firms are also optimistic about business conditions in the second quarter of 2023, but less optimistic in the subsequent quarter, possibly due to the continued expectations of disruptions in the world markets and inflationary pressures arising from the ongoing Russia-Ukraine war. Moreover, export-oriented firms are pessimistic about the year ending June 2024.

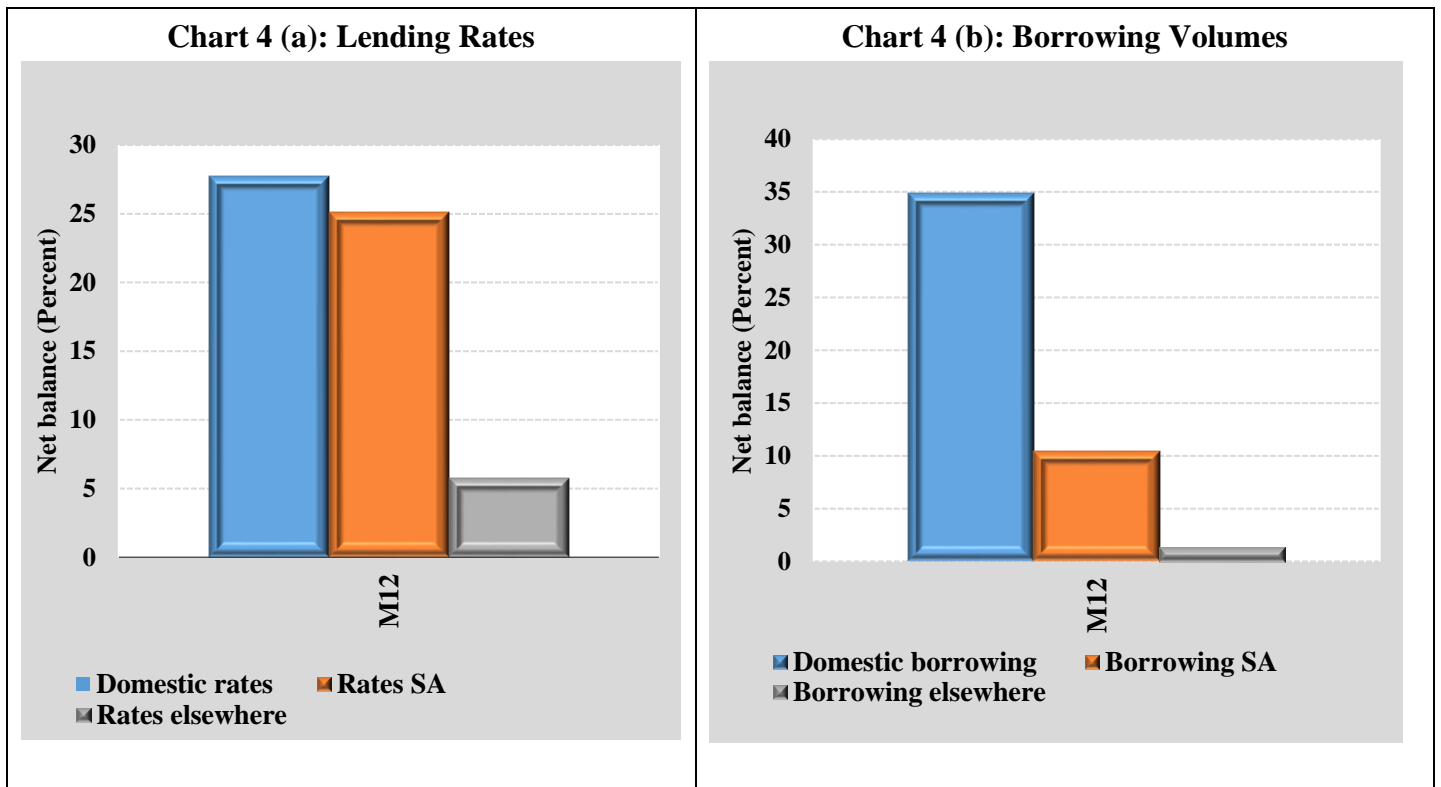


Source: Bank of Botswana

3. Lending Rates and Borrowing Volumes

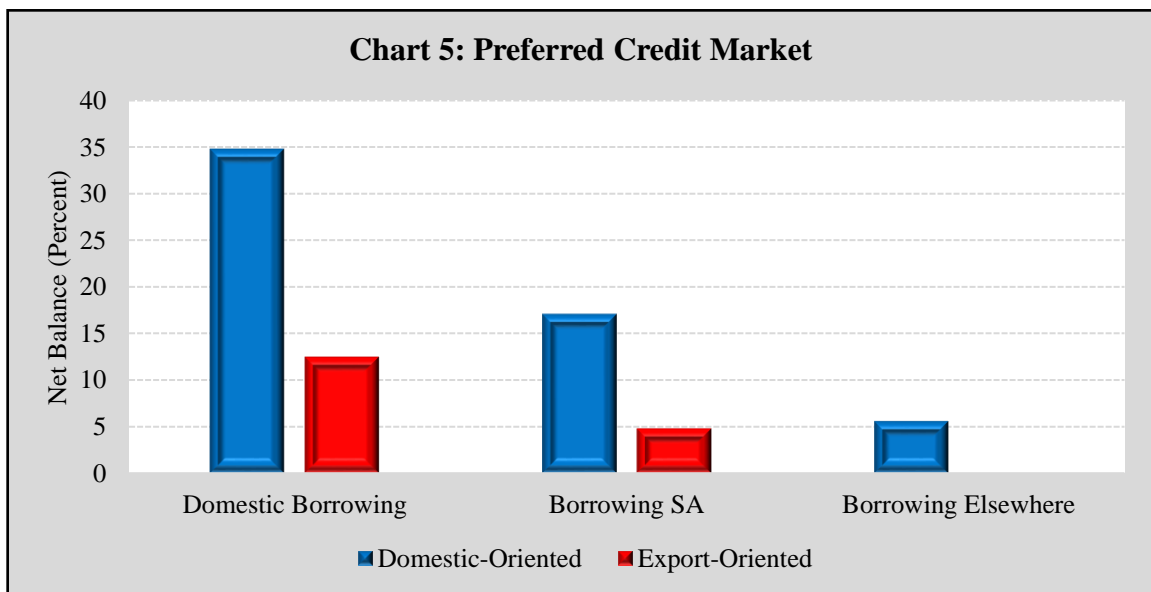
Expected increase in lending rates and borrowing volumes across all markets in the year to June 2024 (M12)

- 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 June 2024, as depicted by the positive net balances (Chart 4). This is consistent with the expected rise in investment, production capacity, sales volume, and profitability, supported by the anticipated improvement in domestic economic performance during the period.



Source: Bank of Botswana

3.2 Firms in both the domestic and export-oriented markets anticipate tight access to credit in the second 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 the domestic market and South Africa, and are indifferent about borrowing elsewhere.

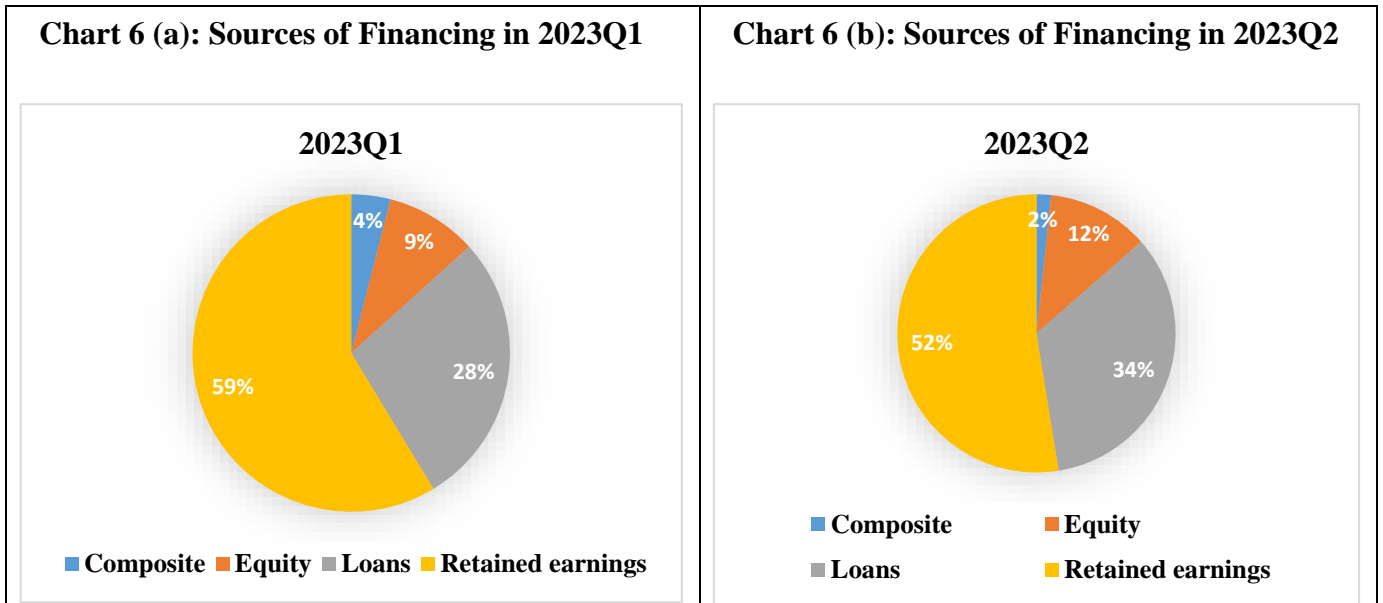


Source: Bank of Botswana

3.3 Approximately 36 percent of the surveyed firms indicated that their choice of credit market was predicated on accessibility, while 31 percent indicated that their borrowing decisions were influenced by availability of appropriate credit facilities. Meanwhile, 27 percent of

the firms cited affordability of suitable loan products, while 5 percent cited both 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 is followed by loans, equity, and composite (combination of financing), in that order (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.



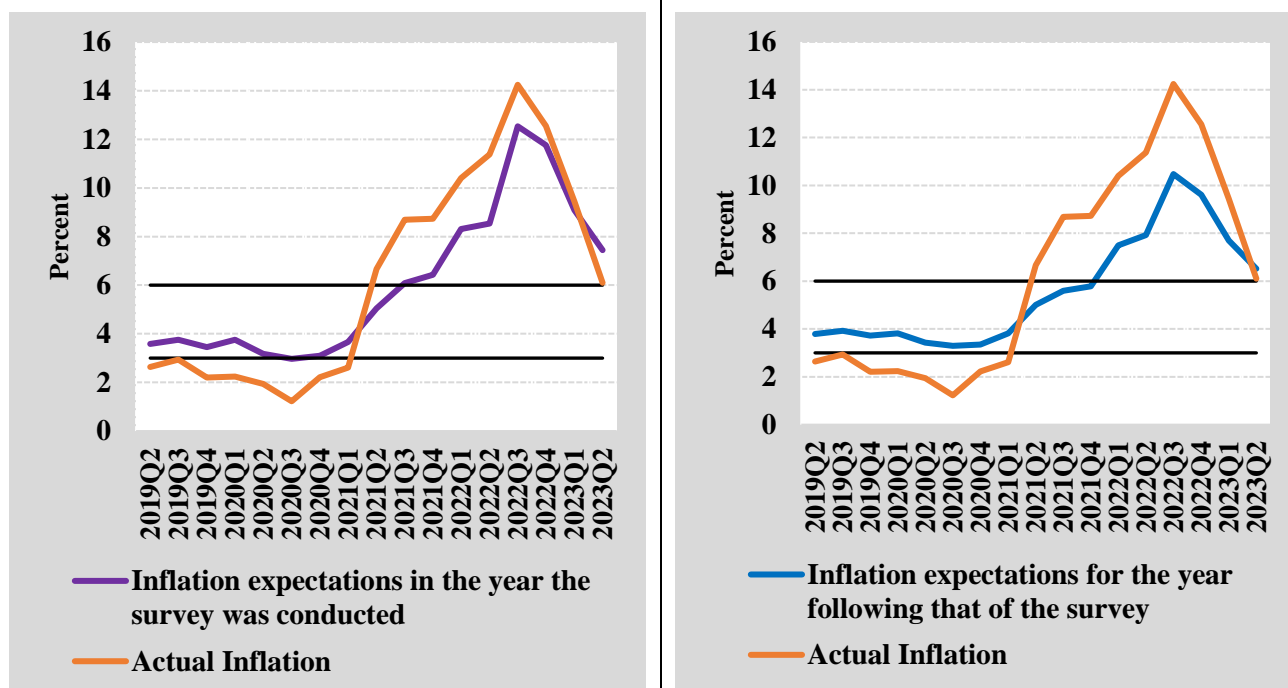
Source: Bank of Botswana

4 Price Developments and Inflation

Cost pressures expected to decrease in the second quarter of 2023

- 4.1 Firms expect cost pressures to be subdued in the second quarter of 2023, attributable to the expected downward pressure on utilities, materials and transport costs, mainly due to relatively lower fuel prices. 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 7.4 percent for 2023 (9.1 percent in the previous survey) and 6.5 percent for 2024 (7.7 percent in the previous survey). The downward revision of inflation expectations is in line with the Bank's downward revision of the inflation outlook in June 2023.

Chart 7: Inflation Expectations



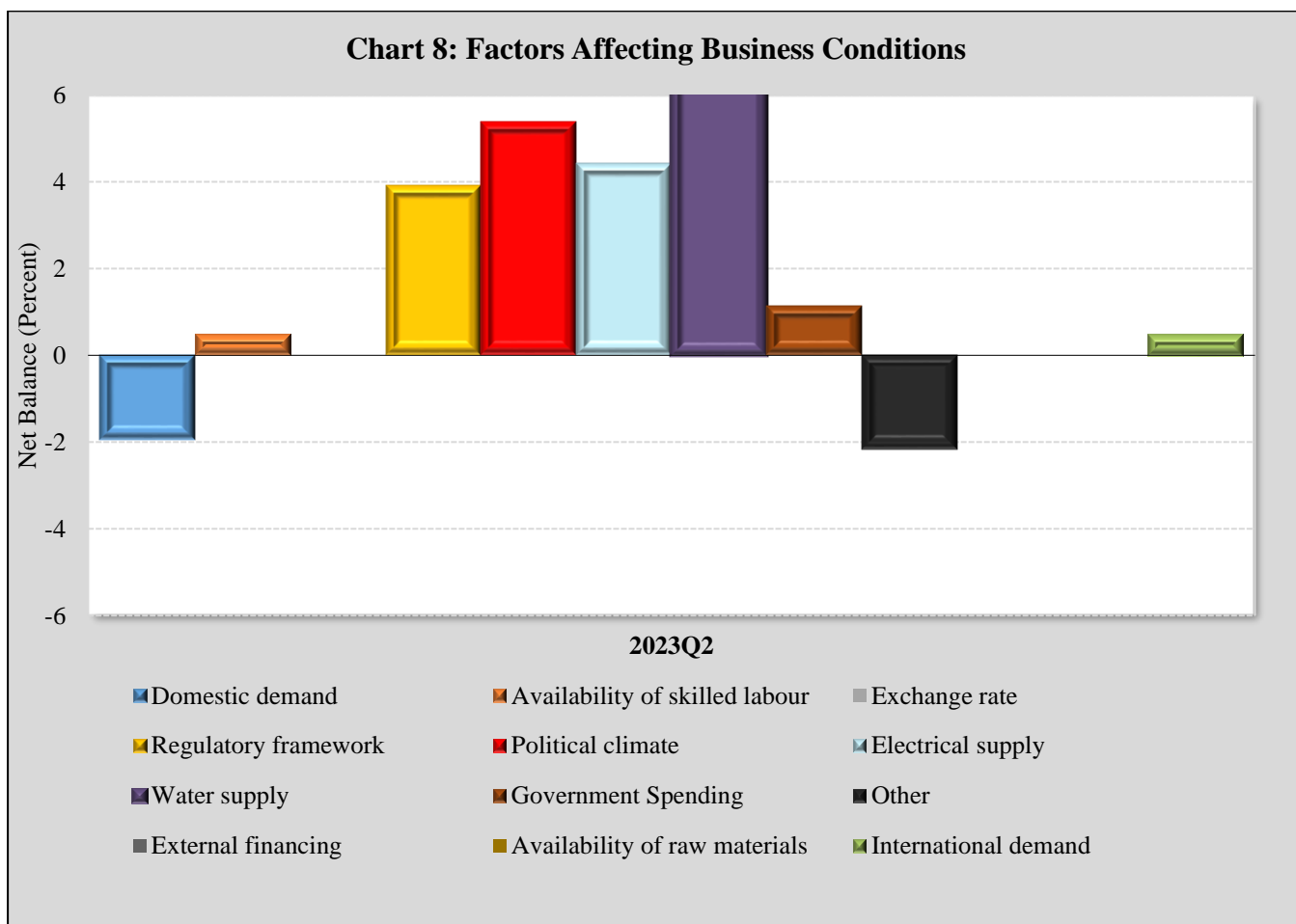
Source: Bank of Botswana

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 second Quarter of 2023

5.1 Firms, specifically those in the Agriculture, Construction and Real Estate; and Retail, Accommodation, Transport and Communications sectors cited ‘other’ challenges as a major impediment to doing business in Botswana (Chart 8). These challenges include high input costs; high aviation fuel prices; and the new citizen economic empowerment initiatives which some firms considered unfavourable to foreign direct investment. Weak domestic demand was also considered to be a drag on business operations mainly by firms in Retail, Accommodation, Transport and Communications; Manufacturing; Construction and Real Estate; and Agriculture sectors.

5.2 On the positive side, adequate water and electricity supply, favourable political climate, effective regulatory framework, and efficient government spending continued to be considered supportive to doing business in Botswana in the second quarter of 2023 (Chart 8).



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were less optimistic about business conditions in the second quarter of 2023 compared to the first quarter of 2023. Going forward, business conditions are expected to improve in the third quarter of 2023 and in the 12-month period to June 2024, supported by the anticipated improvement in sales volume, production capacity and business profitability in the third quarter of 2023. These improvements mainly reflect the continued domestic economic recovery, following relaxation of COVID-19 restrictions, as well as the implementation of expansionary fiscal policy, among others. Firms expect the economy to expand by 4.2 percent in 2023, and inflation to decline but remain above the Bank’s objective range of 3 – 6 percent in 2023 and 2024.