

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



SEPTEMBER 2021
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 2021 BES Report presents business expectations about the current period (Q3:2021), the fourth quarter of 2021 (Q4:2021); and the twelve-month period (M12) from October 2021 - September 2022 (Q4:2021-Q3:2022). Thus, part of the survey is conducted during the period in which the COVID-19 regulations and protocols, with specific reference to travel restrictions and social distancing requirements, were in place (Q3:2021), as part of measures adopted by authorities aimed at containing the spread of the COVID-19 pandemic. However, the survey period also covers the period when the restrictions were less stringent compared to 2020, with international travel allowed with proof of a negative COVID-19 Polymerase Chain Reaction (PCR) test performed within 72 hours prior of travel.
- 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; and Administrative and Support Services were merged for ease of analysis since they are interconnected. The response rate for the current survey is 55 percent, 15 percentage points lower than in the June 2021 Survey. The lower response rate was mainly due to the logistical challenges faced by some companies, arising from reduced staff complement and shift work arrangements necessitated by the COVID-19 containment measures.
- 1.4 In July 2021, Statistics Botswana published a new series of national GDP rebased from 2006 to 2016. The rebased series introduced changes to some sectoral groupings, increasing their number from 10 to 18. As a consequence, the sectoral weights used for deriving net balances differ from those of the past surveys. This, in turn, affected the magnitude of the net balances (as the net balances are weighted by each sector's relative share in GDP). A net balance is a measure 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).
- 1.5 The survey questions focused mainly on the anticipated direction of the change in selected indicators relating to improvement, worsening or staying the same. The results are then consolidated into a net balance. 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

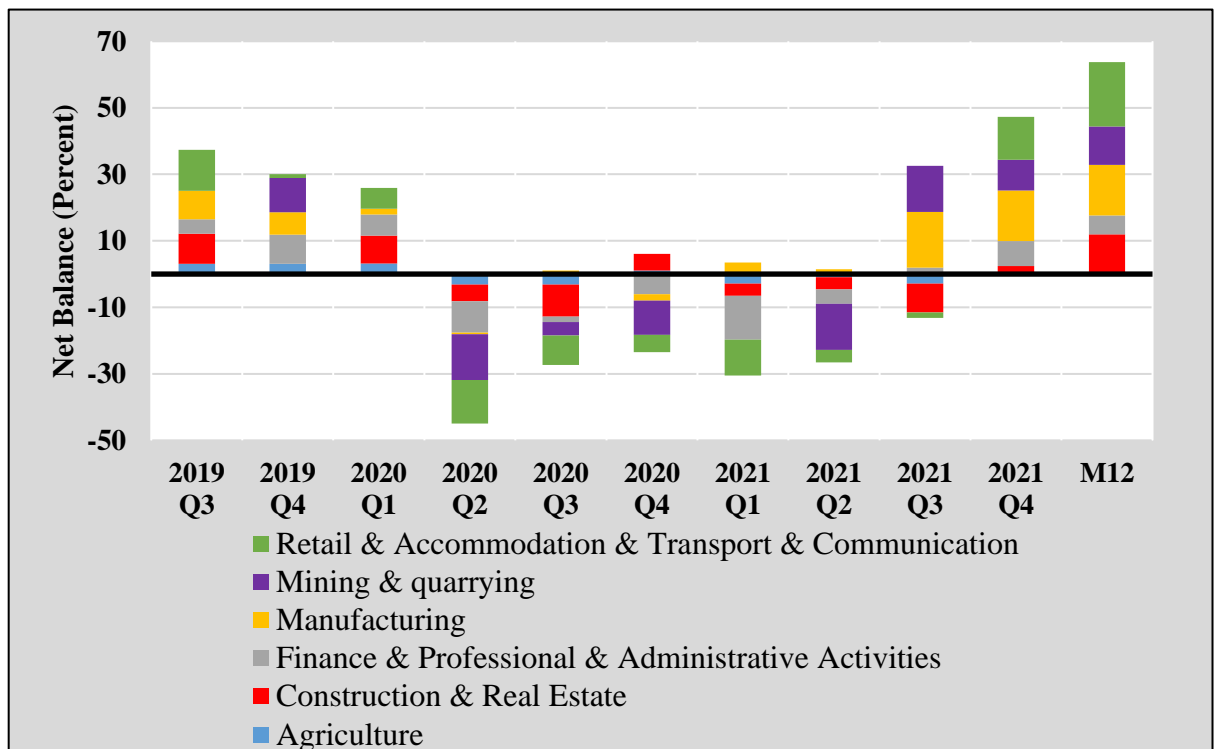
- 1.6 The results suggest that firms are optimistic about economic activity in the third quarter of 2021 compared to the previous quarter wherein they were pessimistic (Chart 2). However, they anticipate tight access to credit across all markets. The optimism is evident in the anticipated improvement in profitability; sales volume; imports of goods and services; and investment in plant and machinery, in the current survey compared to the previous one. Firms also expect cost pressures to rise in the fourth quarter of 2021 compared to the third quarter, mainly reflecting second-round effects of the 2 percentage points increase in Value Added Tax (VAT) effective April 2021. Firms expect average inflation to be slightly above the Bank's 6 percent upper bound in 2021, but expect it to revert to within the medium-term objective range of 3 - 6 percent in 2022.

2. Economic Performance and Business Conditions

Output is expected to increase in 2021

- 2.1 Firms expect GDP to expand by 3.2 percent and 3.9 percent in the third and fourth quarters of 2021, respectively, and 4 percent, on an annual basis, in 2021. Growth expectations for the third quarter of 2021, are reflected in the anticipated improvement in performance of sectors such as mining and quarrying and manufacturing (Chart 1). At the same time, the expected fourth quarter growth aligns with the anticipated improvement in business conditions and the envisaged global economic recovery in 2021.

Chart 1: Expected Drivers of Economic Activity



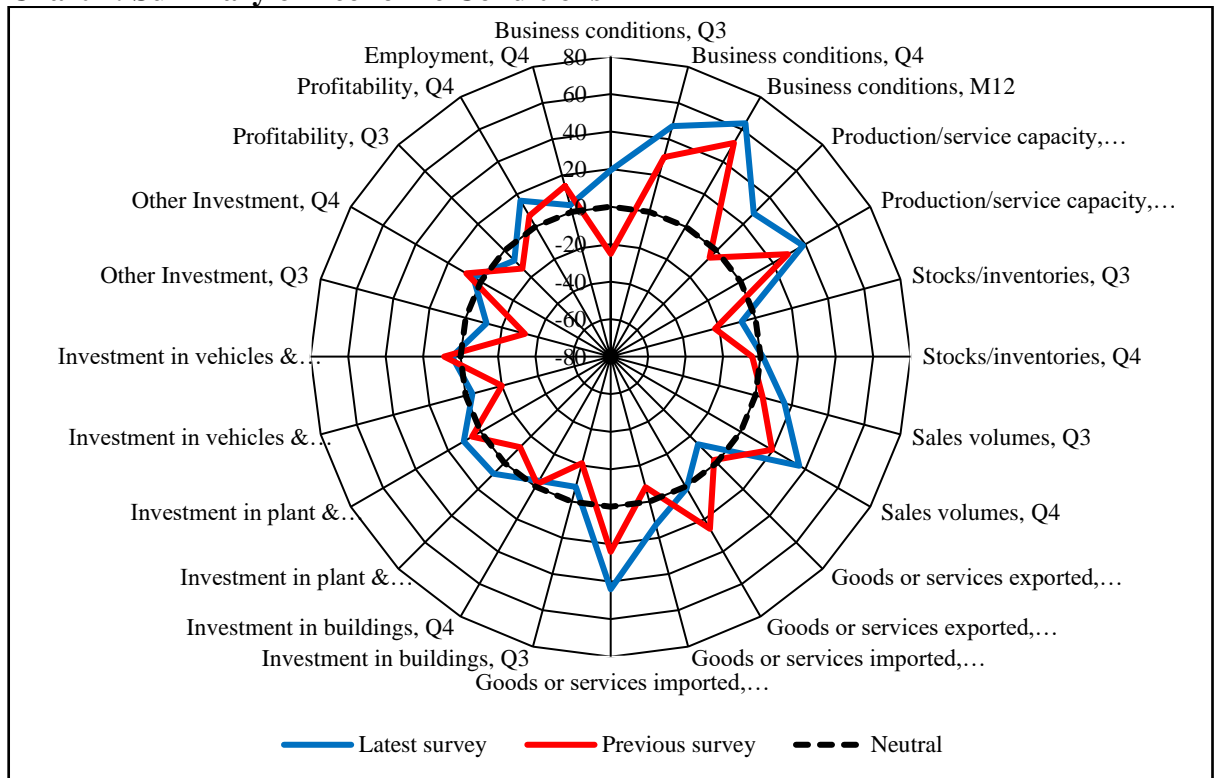
Source: Bank of Botswana

Note: The chart shows net balances on each sector’s expectations on economic performance from the third quarter of 2019 to the fourth quarter of 2021 and the 12-month period to September 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 $[(P-N)/P+N] \times 100 \times Z$.

2.2 Notably, firms in Manufacturing and, Mining and Quarrying were optimistic about economic growth prospects in the third quarter of 2021 compared to the prior quarter. This aligns with the less stringent COVID-19 movement restrictions. The Finance and Professional and Administrative Activities sector was also optimistic about economic activity supported by accommodative monetary conditions and government interventions to mitigate the impact of COVID-19, including the implementation of the Economic Recovery and Transformation Plan (ERTP) and the Industry Support Facility, among others. However, the Agriculture, Forestry and Fishing and the Construction and Real Estate sectors expect unfavourable economic performance in the third quarter relative to the second quarter, presumably because of the harm to business operations arising out of the COVID-19 pandemic containment measures. For the fourth quarter of 2021, firms across all sectors, are optimistic about economic performance and this is based on the lifting of the State of Emergency as at the end of September 2021.

2.3 Firms in all sectors are optimistic about economic recovery in the year to September 2022, led by the Retail and Accommodation and Trade, Hotels, Transport and Communications; Mining and Quarrying; and Finance and Professional and Administrative Activities sectors. The perceived improvement in economic performance in the current survey (Chart 2) compared to the previous one, likely reflects the expected resumption of economic activity following the end of the State of Public Emergency (SOE).

Chart 2: Summary of Economic Conditions



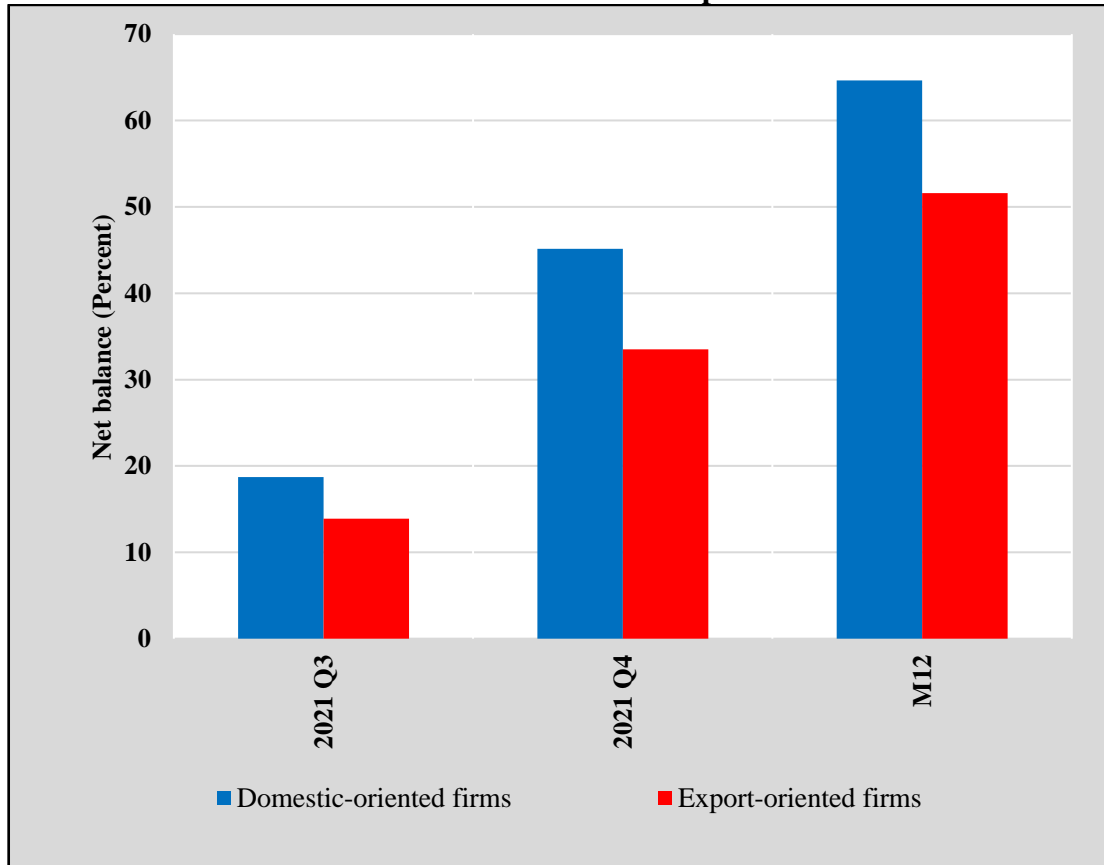
Source: Bank of Botswana

Notes: The chart summarises firms' expectations about business conditions. The blue line represents the results of the September 2021 Survey, while the red line represents the results of the June 2021 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 2021, Q4 represents expectations about business conditions for the fourth quarter of 2021, while M12 depicts the perceived business conditions for the twelve-month period from October 2021 to September 2022. The red line denotes perceptions about business conditions as envisaged in the previous survey.

- 2.4 Chart 3 shows that optimism among domestic market-oriented firms improves markedly in the fourth quarter of 2021 compared to the third quarter of 2021, likely because businesses expect demand for their products to improve with the lapse of the State of Public Emergency. The level of optimism rises further in the twelve-month period to September 2022 (M12), consistent with the anticipated continued domestic economic recovery and accommodative monetary conditions, going forward. Confidence in the domestic market-oriented firms is mainly driven by firms in the Manufacturing; Mining and Quarrying; Finance and Professional and Administrative Activities; and Retail and Accommodation and Transport and Communications sectors.
- 2.5 Optimism of export market-oriented firms about business conditions increases the most in the twelve-month period to September 2022. Firms that are predominantly in the Manufacturing and the Retail and Accommodation and Transport and Communications sectors expect good business as trade conditions improve.

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



Source: Bank of Botswana

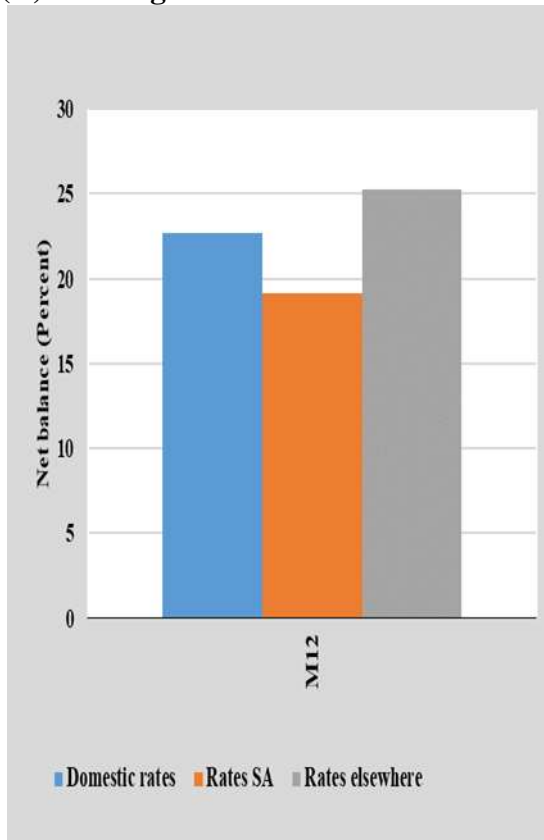
3. Expected Lending Rates and Volume of Borrowing

Lending rates and borrowing volumes across all markets are expected to increase in the year to September 2022 (M12)

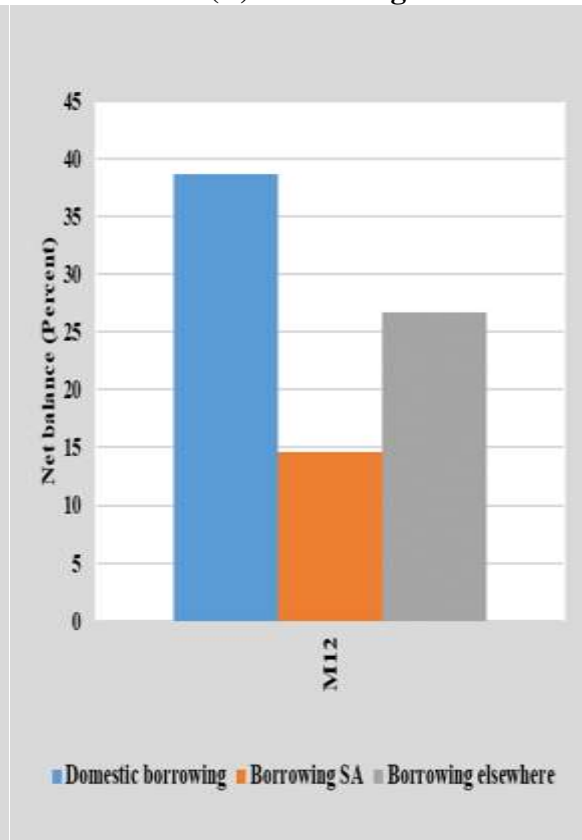
- 3.1 Firms expect borrowing costs to increase in the domestic, South African, as well as foreign markets other than South Africa in the year to September 2022.
- 3.2 Regarding borrowing volumes, firms expect an increase in the stock of loans across all markets in the twelve-month period to September 2022 as businesses source funding to boost operations as the economy continues to recover (Chart 4).

Chart 4: Lending Rates and Borrowing Volumes

(A) Lending Rates



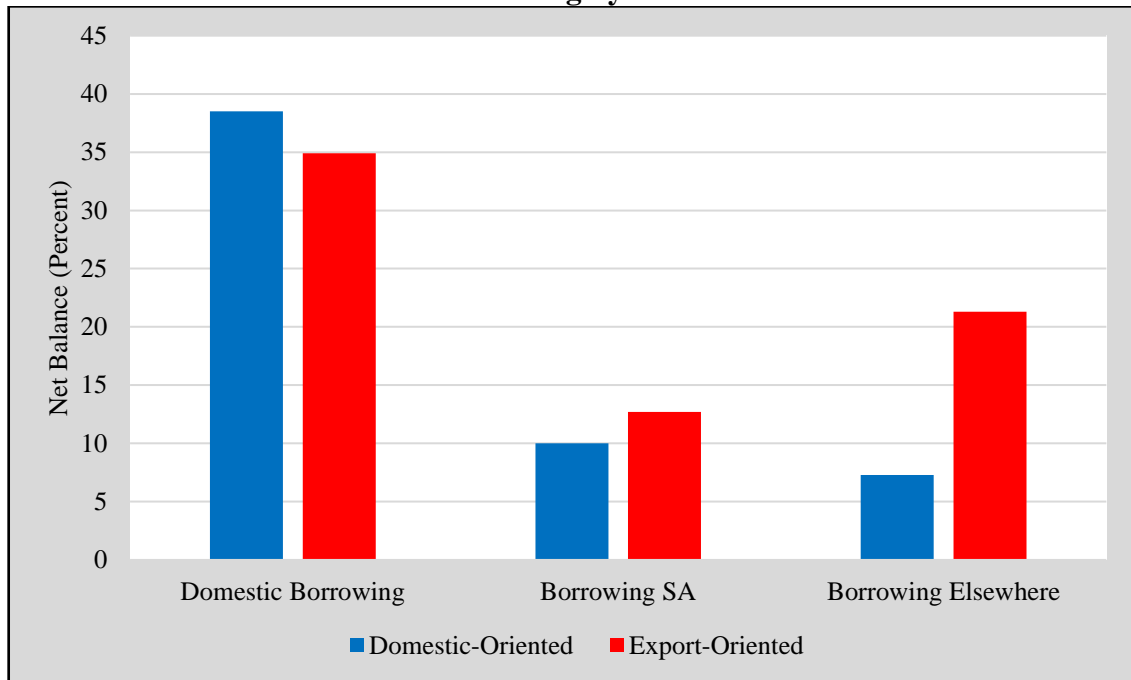
(B) Borrowing Volumes



Source: Bank of Botswana

3.3 Domestic and export market-oriented firms anticipate that overall access to credit will be tight in the year to September 2022. Firms, irrespective of the target market, more generally, prefer domestic borrowing. However, some export market-oriented businesses prefer external financing from South Africa and other foreign markets (Chart 5).

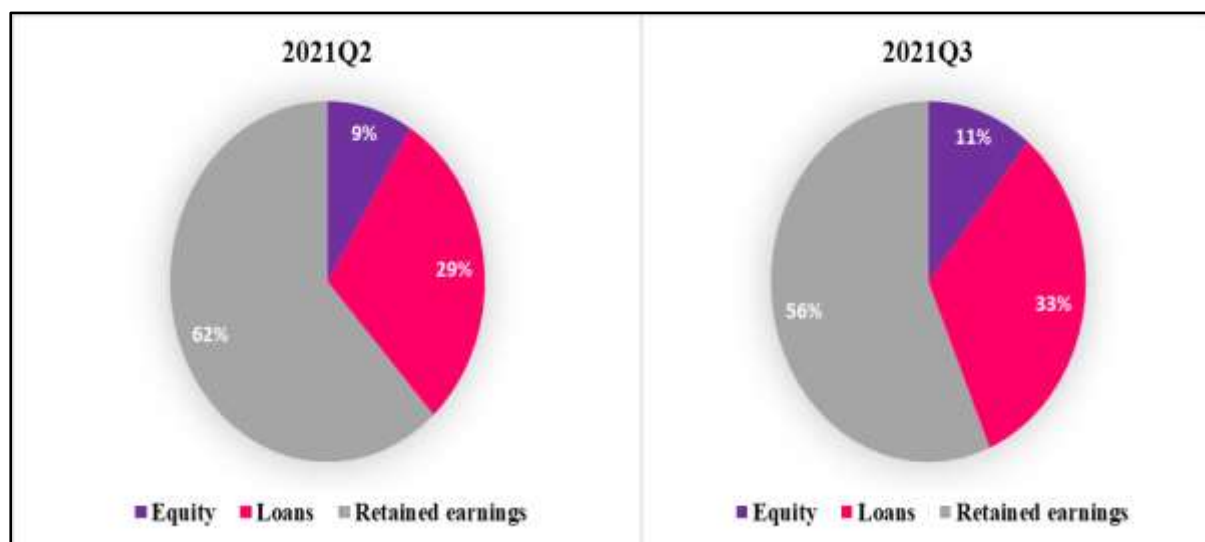
Chart 5: Preferred Market for Borrowing by Firms



Source: Bank of Botswana

- 3.4 A significant number (approximately 54 percent) of the surveyed firms indicated that their source funding market was predicated on accessibility, and 27 percent pointed to availability of required loan products. Meanwhile, 17 percent of the firms indicated that their decisions on acquiring credit were influenced by affordability of suitable credit facilities, while 2 percent indicated that their decision was informed by a combination of factors, namely, accessibility and availability; accessibility and affordability or affordability and availability. As in the previous survey, most firms prefer to finance their business operations mainly from retained earnings followed by loans (Chart 6). Retained earnings as a source of financing was prevalent among the Manufacturing; Retail and Accommodation and Transport and Communications; and Mining and Quarrying sectors. On the other hand, most of the firms in the Finance and Professional and Administrative sector preferred loans as a funding source.

Chart 6: Sources of Financing



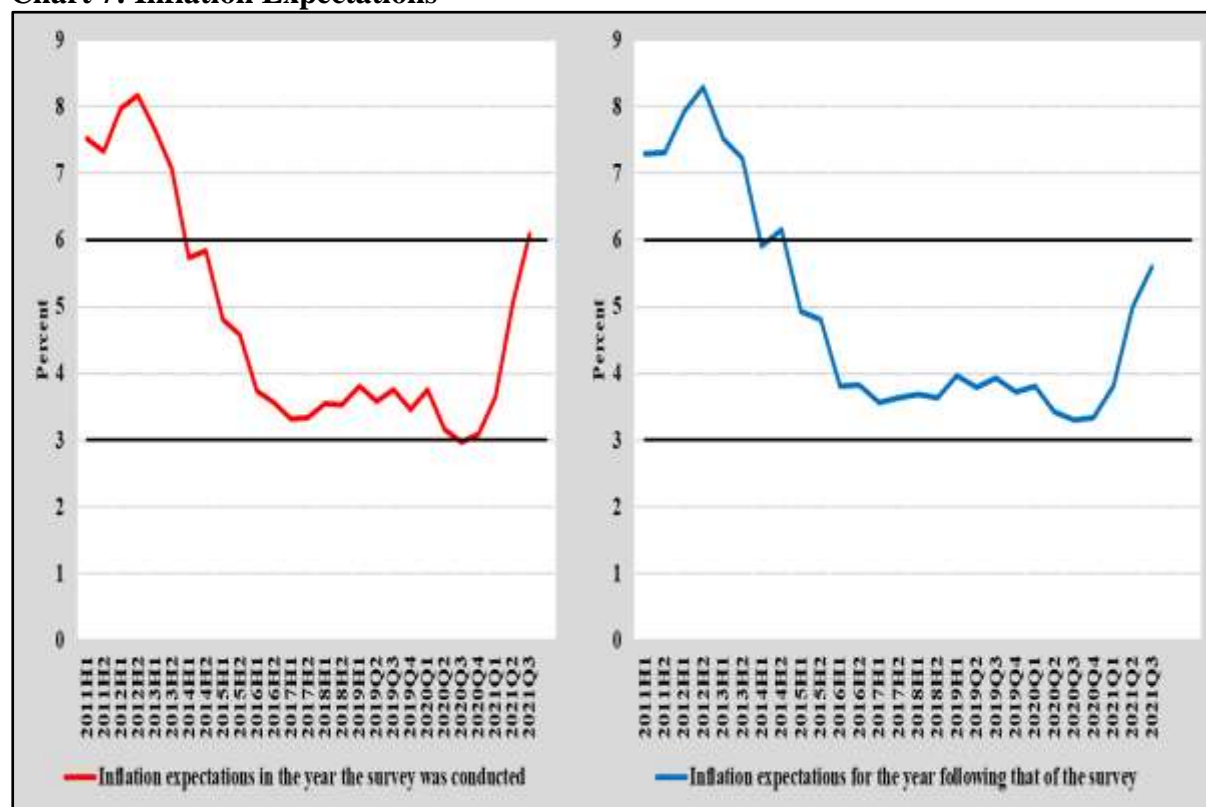
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to increase in the fourth quarter of 2021

- 4.1 Firms expect cost pressures to continue rising in the fourth quarter of 2021, mainly attributable to the expected increase in input costs, due to second-round effects of the upward adjustment of VAT, fuel levy and electricity tariffs effected in 2021. Firms' expectations about domestic inflation rose in 2021 and marginally surpassed the upper bound of the Bank's 3 – 6 percent objective range (Chart 7). Firms' inflation expectations averaged 6.1 percent in 2020 and 5.6 percent in 2022.

Chart 7: Inflation Expectations



Source: Bank of Botswana

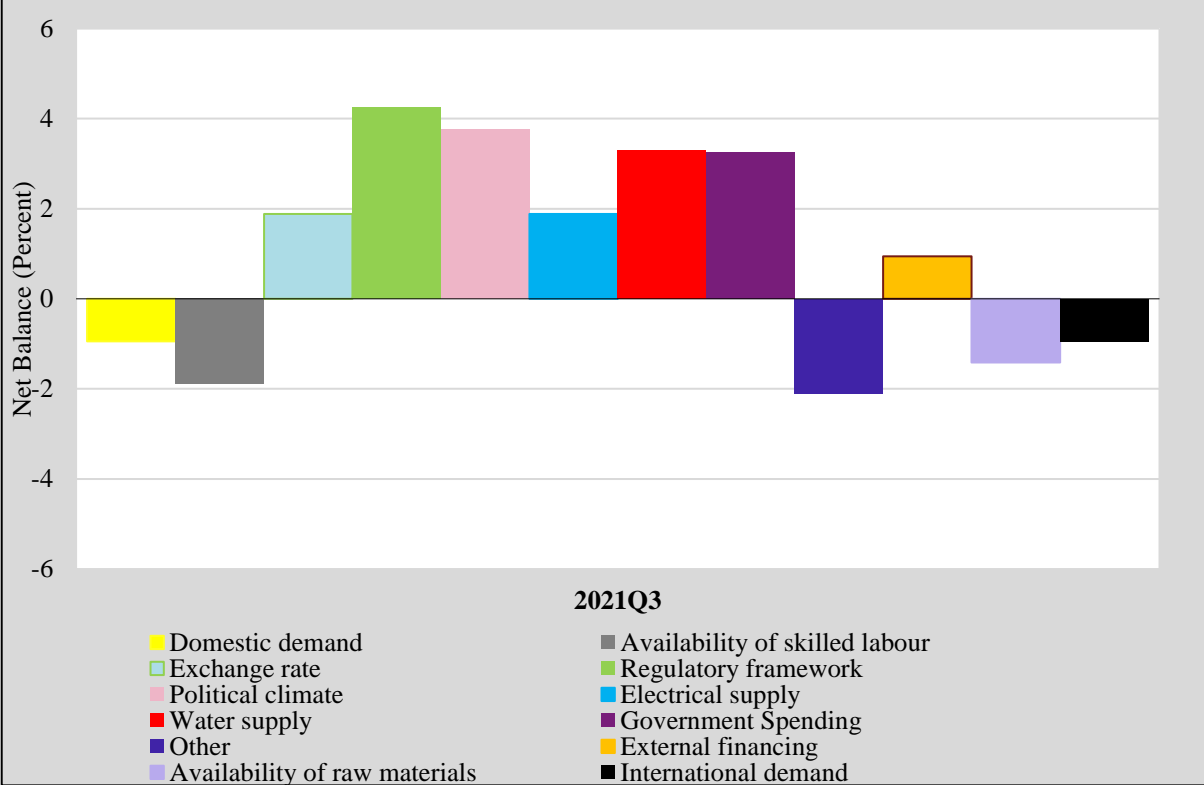
Notes: The chart shows the average of inflation expectations across different surveys. Previously, the surveys were conducted biannually, but effective 2019Q2, surveys are conducted on a quarterly basis. The bi-annual survey horizons comprised the half-year in which the survey was conducted/current period (H1) and the next half-year (H2). The quarterly inflation expectations made in 2020 are about annual inflation in 2021, while those made in 2021 are about annual inflation in 2022.

5. Factors Affecting Business Conditions

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

- 5.1 Firms that are predominantly in the Retail and Accommodation and Transport and Communications sectors, highlighted COVID-19 restrictions as the greatest challenge to their business operations for the third quarter of 2021 (Chart 8). Unavailability of skilled labour was the second most commonly cited impediment to doing business, especially by firms in the Construction and Real Estate sector, reflecting reported difficulties experienced in recruiting foreign skilled labour. Shortage of raw materials was considered an impediment to operations by the manufacturing sector firms. Moreover, weak international and domestic demand was also reported as a challenge to doing business in Botswana.
- 5.2 Effective regulatory framework, favourable political climate, adequate water supply and government spending were viewed as supportive factors to doing business in Botswana for the third quarter of 2021 (Chart 8).

Chart 8: Factors Affecting Business Conditions



Source: Bank of Botswana

6. Conclusion

6.1 Firms were optimistic about business conditions in the third quarter of 2021 compared to the prior quarter. Businesses also anticipate further improvements in business conditions in the fourth quarter of 2021 and the year to September 2022 as economies reopen domestically and globally. Firms expect the economy to expand by 4 percent in 2021, while inflation is anticipated to average 6.1 percent and 5.6 percent in 2021 and 2022, respectively.