



THE QUARTELY BUSINESS EXPECTATIONS SURVEY

JUNE | 2025



1. Introduction

(a) 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. The survey covers the quarter in which the survey is conducted (also referred to as the current period), the subsequent quarter, and the next 12 months. In completing the survey, businesses responded to questions on various topics, including the prevailing business conditions, outlook for both economic growth and inflation, as well as business performance in the survey horizon.
- 1.2 The June 2025 BES report presents business expectations about the second quarter of 2025 (M0), the third quarter of 2025 (M3); and the 12-month period from July 2025 to June 2026 (M12). 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. This list of economic sectors indicates that some sectors have been merged due to their interconnectedness, thereby easing the analysis. The survey recorded a response rate of 57 percent, unchanged from the March 2025 survey.
- 1.3 The survey questions mainly focus 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 up the positive and negative responses to each question by firms in the same sector. The net balances are then weighted by each sector's relative share of Gross Domestic Product (GDP). Thus, by design, the survey responses are predominantly qualitative and provide valuable information to facilitate analysis and inform policy decisions. However, responses to questions relating to the expected GDP growth and inflation are quantitative simple averages.

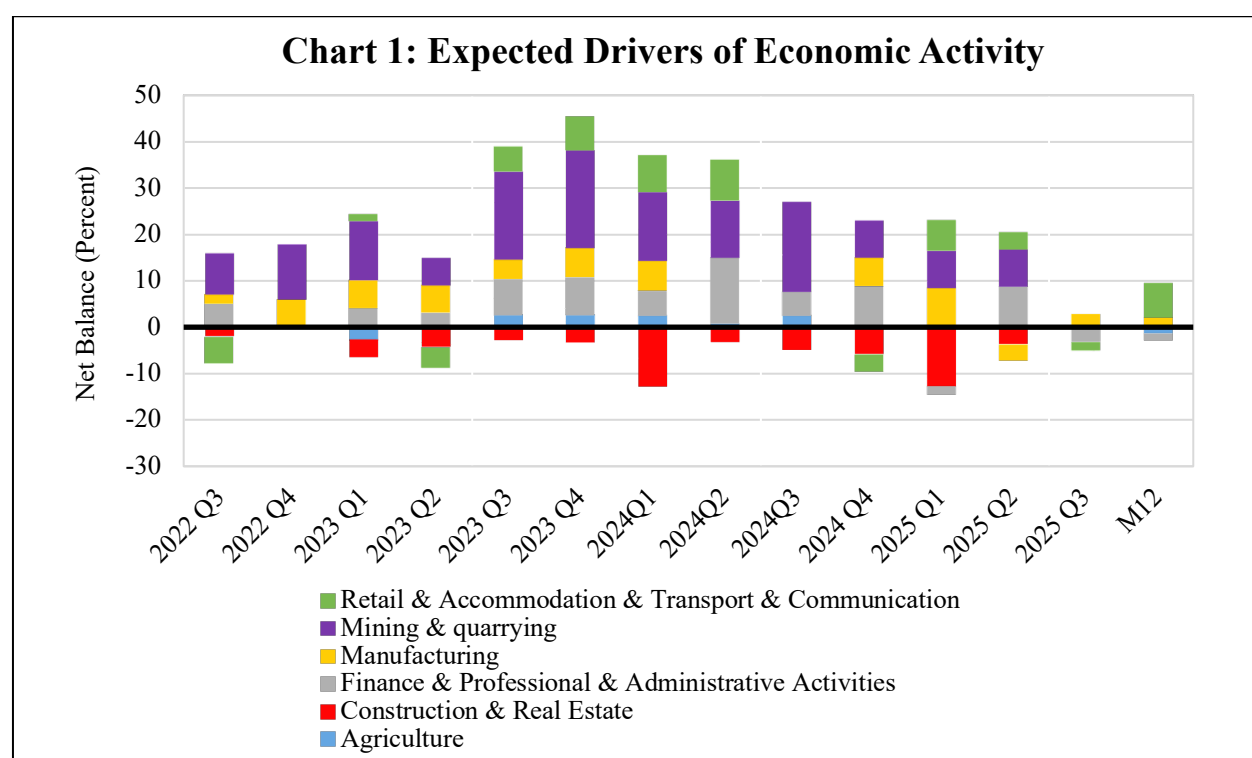
(b) Highlights of the Survey Results

- 1.4 The results of the current BES indicate that firms were generally optimistic about business conditions in the second quarter of 2025, largely unchanged compared to the first quarter of 2025. The optimistic firms include those in Retail, Accommodation, Transport, and Communications; Mining and Quarrying; and Finance, Professional and Administrative Activities, while those in the Agriculture sector remained neutral, and the rest were pessimistic. However, firms were less optimistic about business conditions in the 12-month period to June 2026. The major challenge affecting business operations cited by firms is constrained government spending, reflecting the Country's weak fiscal position. Furthermore, firms anticipate both lending interest rates and borrowing volumes to increase in the year to June 2026. However, firms expected overall cost pressures to decrease in the second quarter of 2025, mainly due to the anticipated decrease in input costs. As a result, they anticipated inflation to remain within the 3 – 6 percent objective range in both 2025 and 2026, suggesting well anchored inflation expectations.

2. Business Conditions and Economic Performance

Sluggish output growth anticipated in 2025

- 2.1 Firms expect overall output to expand slightly by 0.9 percent in 2025, an improvement from the 3 percent contraction recorded in 2024, and higher than the Ministry of Finance’s projection of a 0.4 percent contraction for 2025.
- 2.2 Firms in Retail, Accommodation, Transport, and Communications; Mining and Quarrying; and Finance, Professional and Administrative Activities were optimistic that business conditions would be supportive of economic activity in the second quarter of 2025, while those in the Agriculture sector remained neutral (Chart 1). Nonetheless, firms in Construction and Real Estate and Manufacturing sectors were pessimistic about business conditions in the second quarter of 2025.
- 2.3 Looking ahead to the third quarter of 2025, firms in Manufacturing expressed optimism, anticipating favourable business conditions that would support economic activity. Mining and Quarrying, Construction and Real Estate and Agriculture sectors held a neutral outlook (Chart 1). Nonetheless, firms in Finance, Professional and Administrative Activities, as well as Retail, Accommodation, Transport, and Communications sectors were pessimistic about business conditions in the same period.



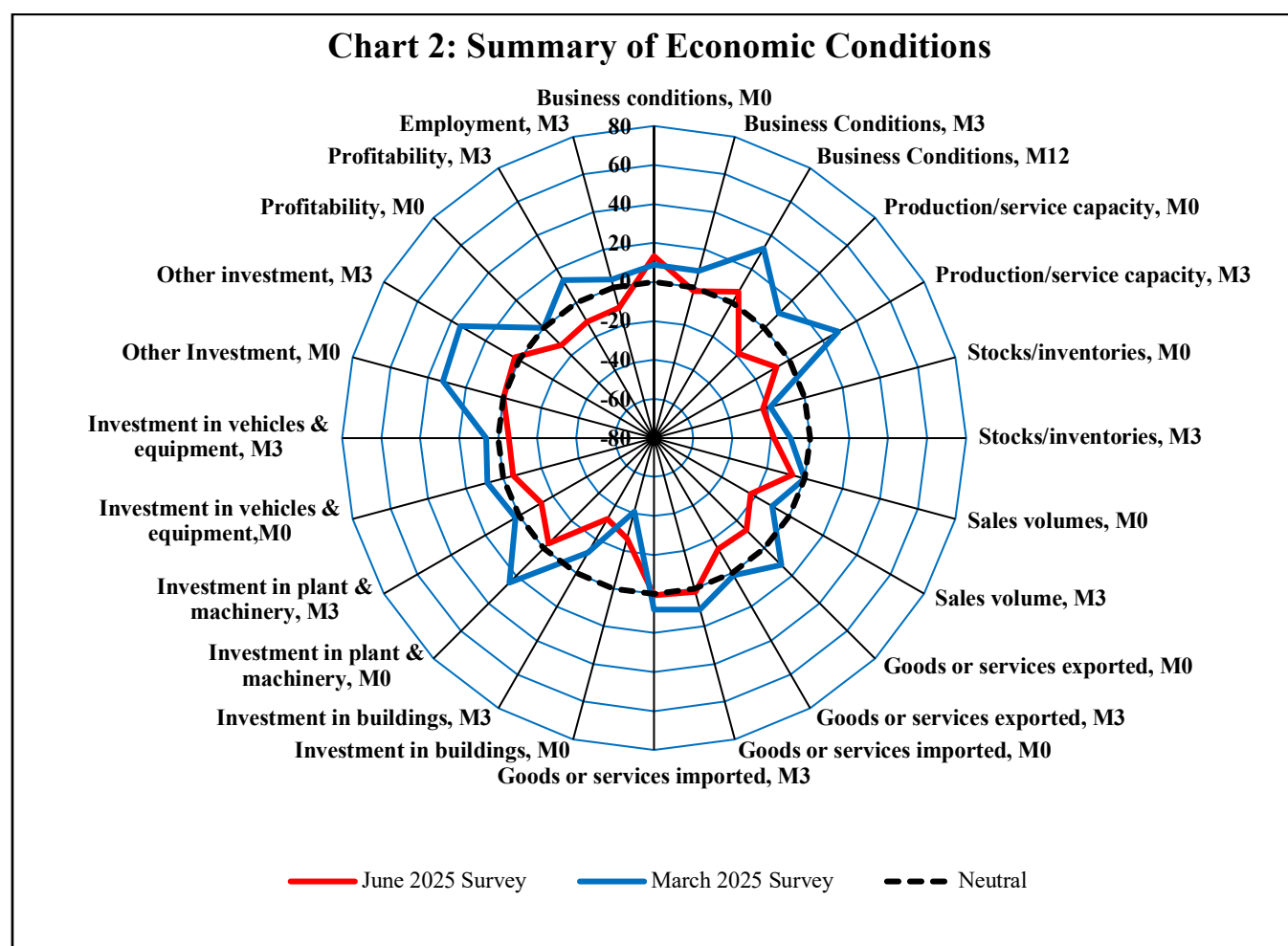
Source: Bank of Botswana

Note:

- The chart shows net balances on each sector’s economic performance expectations for the second and third quarters of 2025, and the 12-month period to June 2026 (M12).
- 2.4 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 those with positive perceptions and ‘N’ those with negative perceptions, with a weight of Z percent in nominal

GDP, the weighted net balance is calculated as $[(P-N)/(P+N) \times 100 \times Z]$. Firms in the Retail, Accommodation, Transport and Communications and Manufacturing sectors were optimistic about business conditions in the 12-month period ahead. In contrast, businesses in Mining and Quarrying and Construction and Estate held a neutral outlook, while those in Agriculture and Finance, Professional, and Administrative Activities were pessimistic. The neutral stance by the Mining and Quarrying sector may reflect uncertainty in global demand for rough diamonds and the growing popularity of other luxurious goods in major markets. Similarly, the neutral sentiment in the Construction and Real Estate sectors could be attributed to uncertainty surrounding implementation of government development projects given the constrained fiscal position.

- 2.5 Overall, firms expected business conditions to remain positive and supportive of economic activity in the second quarter of 2025 (Chart 2) and were largely unchanged compared to the previous quarter (2025Q1). However, expectations for the third quarter of 2025 were neutral. Furthermore, firms were less optimistic about business conditions in the 12-month period to June 2026. This cautious outlook is likely to be linked to the Country's weaker fiscal position, characterised by lower revenues, constrained cash flow and, therefore, restrained pace of spending, mainly due to a drop in diamond export earnings.



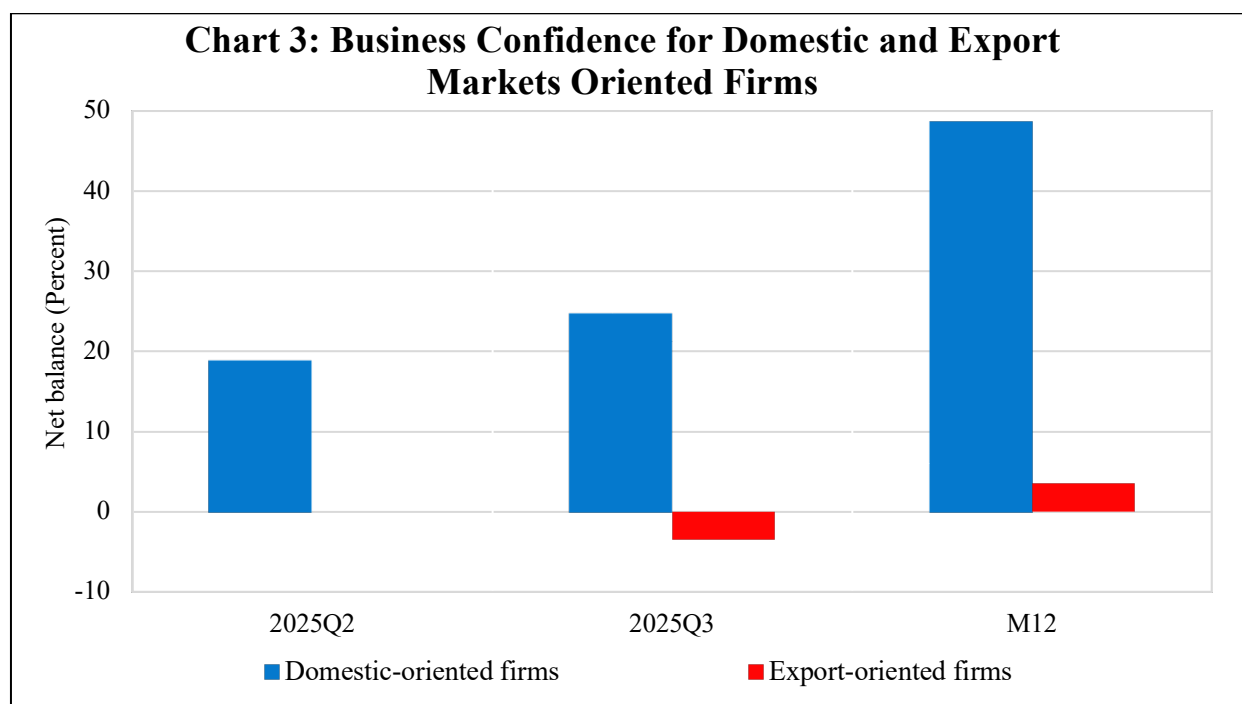
Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the March 2025 Survey, while the red line represents the results of the June 2025 Survey. The black dashed line is the static position, representing neutral 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 away from the centre of the chart show an improvement, whereas those moving towards the centre of the chart represent a deterioration.
3. The current survey results, shown by the red line, are interpreted as business conditions expected in the second quarter of 2025 (M0), the third quarter of 2025 (M3), and the 12-month period to June 2026 (M12). The blue line denotes perceptions about business conditions as envisaged in the previous survey.

2.6 Chart 3 illustrates that business confidence among domestic market-oriented firms was positive in the second quarter of 2025, and it is expected to strengthen in the third quarter, and over the 12-month period to June 2026. This outlook is consistent with the anticipated positive impact of government efforts to support economic recovery and the business environment¹. Confidence among domestic market-oriented firms is mainly driven by firms in the Mining and Quarrying, Finance, Professional and Administrative Activities and Retail, Accommodation, Transport and Communication sectors.

2.7 Meanwhile, export-oriented firms remained neutral about business conditions in the second quarter of 2025 but their outlook for the third quarter was pessimistic, especially within the manufacturing sector. This sentiment possibly reflects concerns over potential trade barriers, economic uncertainty, and supply chain disruptions, which may hinder the ease of doing business.



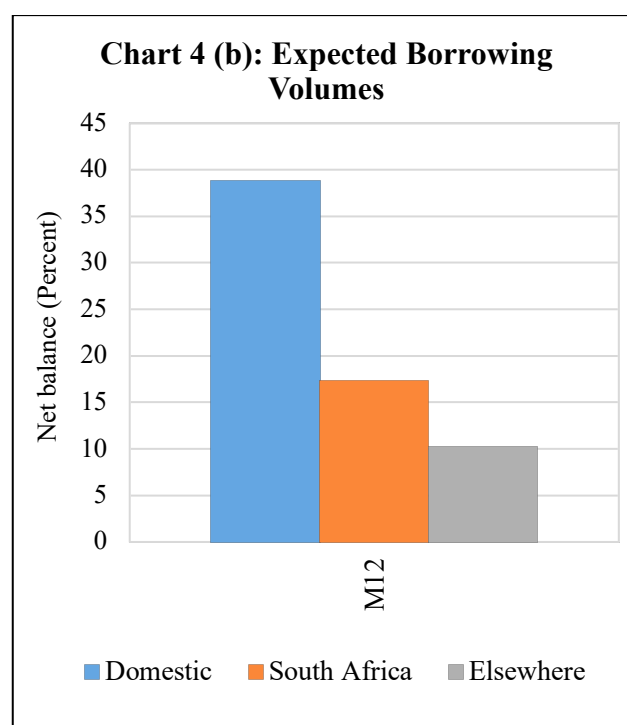
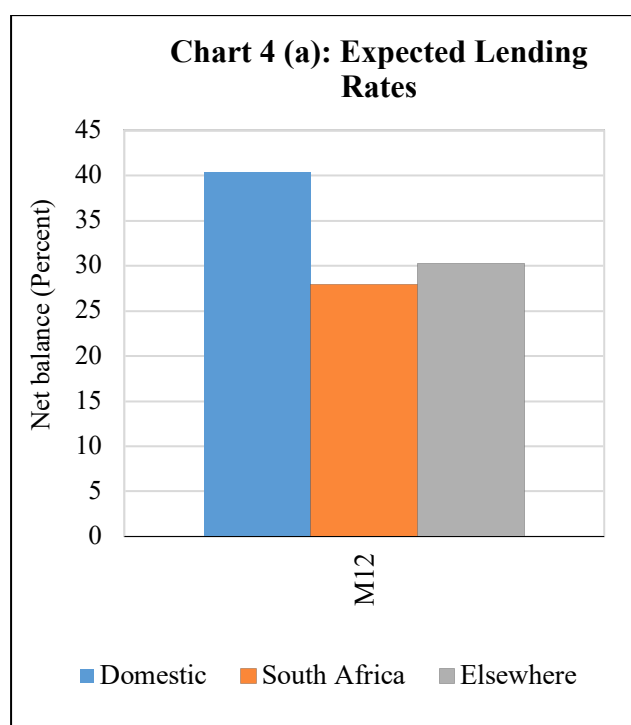
Source: Bank of Botswana

¹ These include, amongst others, the National Housing Programme (Bonno); youth empowerment programmes to encourage youth entrepreneurship and innovation; economic diversification which embraces green and digital economy, focusing on sectors such as tourism, agriculture, and manufacturing.

3. Lending Interest Rates and Borrowing Volumes

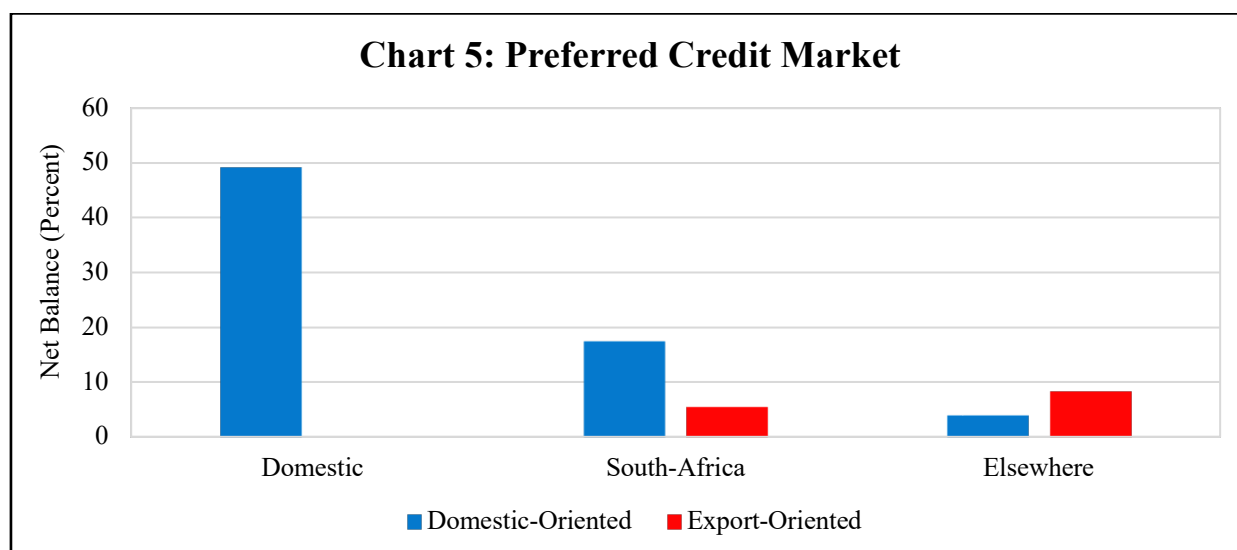
Expected increase in lending interest rates and borrowing volumes across all markets in the year to June 2026 (M12)

- 3.1 Firms expect lending interest rates to increase across all markets (domestic, South Africa and elsewhere) in the year to June 2026, as reflected by the positive net balances (Chart 4a). This expectation is most likely informed by the recent increase of prime lending rates by domestic commercial banks. Notwithstanding the anticipated rise in lending interest rates, borrowing volumes are expected to increase across all markets over the same period (Chart 4b), with most firms preferring to borrow domestically.



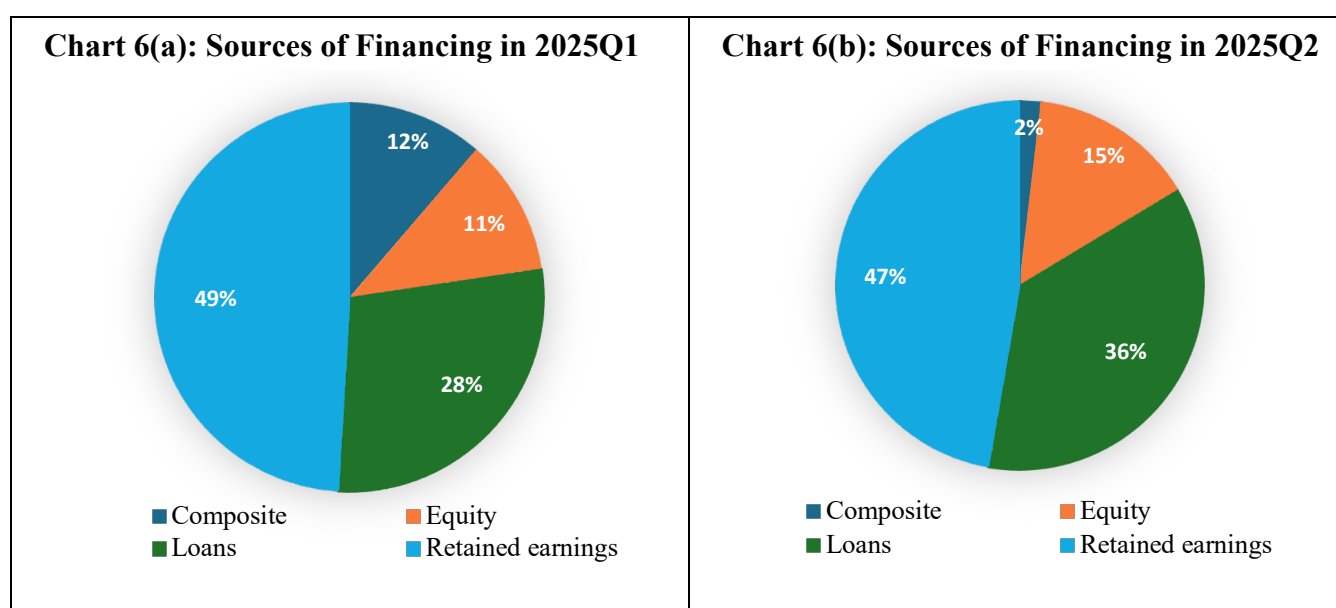
Source: Bank of Botswana

- 3.2 Most domestic market-oriented firms preferred borrowing locally (Botswana) compared to South Africa and elsewhere in the second quarter of 2025 (Chart 5). However, export market-oriented firms preferred borrowing from South Africa and elsewhere during the period under review.



Source: Bank of Botswana

- 3.3 Approximately 41 percent of the firms surveyed indicated that their choice of credit market was mainly influenced by the accessibility of appropriate credit facilities, 29 percent cited availability of suitable loans, while 18 percent were influenced by the affordability of credit. Meanwhile, 12 percent of firms considered a combination of availability and accessibility as key factors in deciding their preferred credit market.
- 3.4 Firms continued to prioritise financing their business operations primarily from retained earnings, consistent with the findings of the previous survey. This was followed by loans, equity and a composite of sources of financing as shown in Chart 6b. However, in the second quarter of 2025, firms that preferred equity financing increased to 15 percent as compared to 11 percent in the previous survey. Meanwhile, a smaller proportion of firms preferred a composite source of financing compared to the previous survey. The preference for using retained earnings as a source of financing was prevalent across most sectors. However, some firms in sectors such as Finance, Professional and Administrative Activities and Construction and Real Estate ranked loans relatively high as a source of financing.

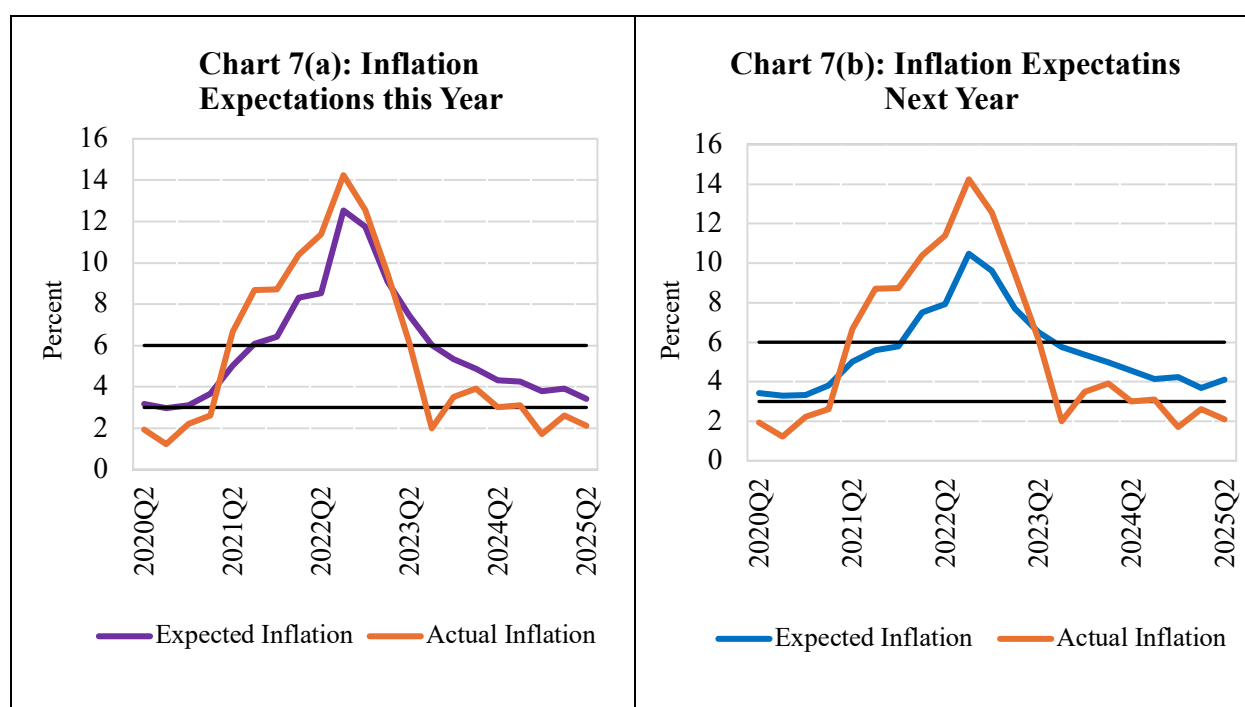


Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to decrease in the second quarter of 2025

- 4.1 Overall, firms expected cost pressures to decrease in the second quarter of 2025 compared to the first quarter, mainly due to the anticipated decline in input costs, particularly for materials, transport and other inputs. As a result, domestic inflation is expected to average 3.4 percent in 2025, down from 3.9 percent in the previous survey, before rising to an average of 4.1 percent in 2026 (Charts 7a and 7b). Nonetheless, firms expect inflation to remain within the 3 – 6 percent medium-term objective range in both 2025 and 2026, indicating that inflation expectations remain well anchored. However, this outlook is likely to change going forward, given the unintended market responses to the recent adjustment of exchange rate parameters. In particular, the increase in the trading margins at which the Bank buys and sells foreign currency to commercial banks has resulted in unwarranted price increases for some goods and services, reflecting the high import intensity of the Botswana economy.



Source: Bank of Botswana

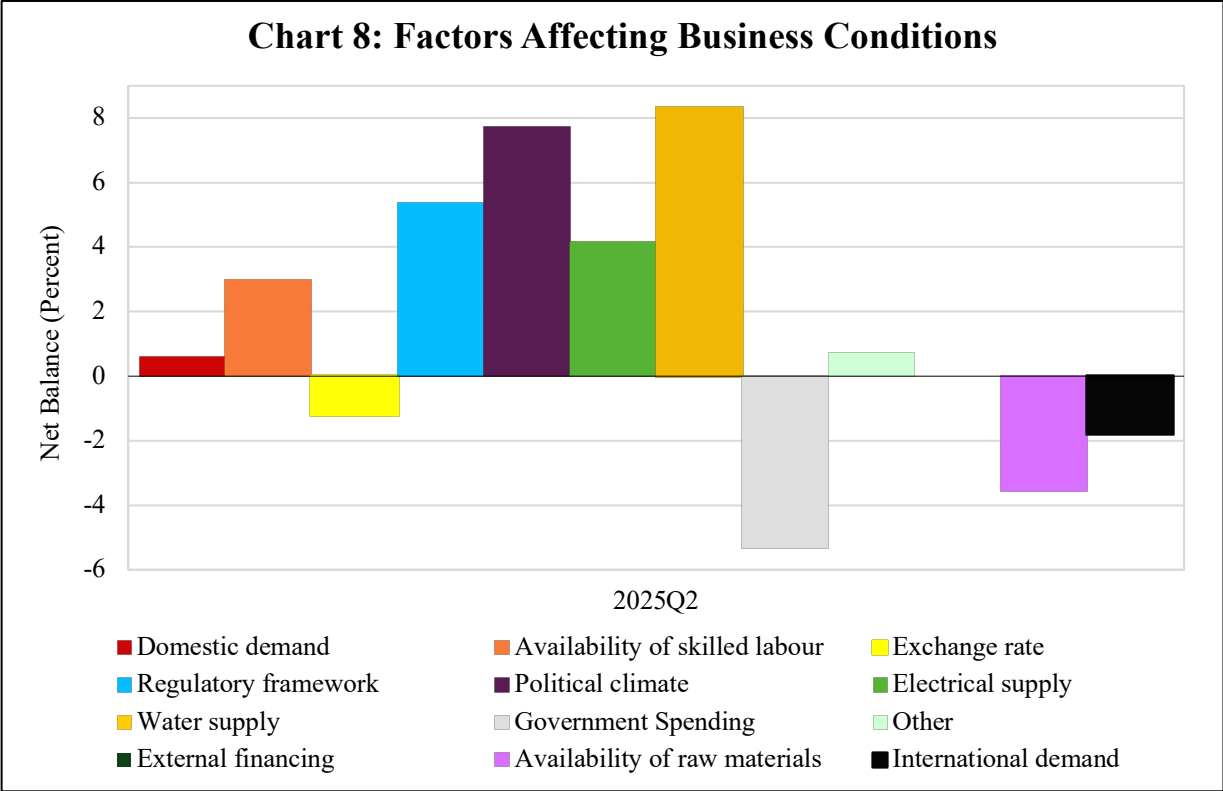
Note: The charts show the average inflation expectations across different surveys. In the case of inflation expectations next year, the quarterly inflation expectations made in 2025 are about inflation in 2026.

5. Factors Affecting Business Conditions in the Second Quarter of 2025

- 5.1 The lower pace of government spending was cited as the major factor adversely affecting firm's business operations in the second quarter of 2025. This is consistent with the Country's weaker fiscal position, due to lower government revenue and reduced expenditures, largely due to lower earnings from diamond exports. Other challenges indicated by firms include limited availability of raw materials, subdued international demand, and an unfavourable exchange rate². On the positive side, firms cited water supply,

² Importing firms are generally of the view that the depreciation of the Pula against the South African rand in the second quarter of 2025 made imports relatively more expensive.

political climate, regulatory framework, availability of skilled labour, and electricity supply as the most supportive factors for doing business in Botswana (Chart 8).



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were optimistic about business conditions in the second quarter of 2025, largely unchanged compared to the first quarter of 2025, but less optimistic for the 12-month period to June 2026. The less optimistic outlook is consistent with increased uncertainty resulting from Botswana’s weaker fiscal position. As a result, firms anticipate the domestic economy to grow modestly by 0.9 percent in 2025, down from 1.9 percent anticipated in the previous survey. Inflation is expected to average 3.4 percent and 4.1 percent in 2025 and 2026, respectively. While inflation expectations remain well anchored within the 3–6 percent range for 2025 and 2026, they could shift upward due to unintended price pressures from recent exchange rate adjustments, given Botswana’s high import dependence.