QUARTERLY BUSINESS EXPECTATIONS SURVEY

JUNE I 2026

Table of Contents

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 the domestic business community's perceptions of prevailing economic conditions and expectations over the survey horizon. The survey covers the quarter in which it is conducted (the current period), the subsequent quarter, and the following 12 months. In completing the survey, businesses respond to questions on various topics, including the prevailing business conditions, expectations for economic growth and inflation, as well as anticipated business performance over the survey horizon.

1.2 The June 2026 BES report presents business expectations for the second quarter of 2026 (M0), the third quarter of 2026 (M3) and the 12-month period from July 2026 to June 2027 (M12). The survey sample comprises 100 businesses drawn 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. For analytical purposes, some sectors are aggregated to reflect their interlinkages and facilitate coherent analysis. The survey recorded a response rate of 54 percent, unchanged from the March 2026 survey.

1.3 The survey questions mainly focus on the anticipated direction of change in selected indicators, that is, whether conditions are expected to improve (positive), remain unchanged or worsen (negative). The responses are then consolidated into a net balance, a measure obtained by aggregating the positive and negative responses to each question across firms within the same sector. The net balances are then weighed by each sector's relative contribution to gross domestic product (GDP). Thus, by design, the survey responses are predominantly qualitative and provide valuable insights into business sentiment and emerging economic trends, thereby supporting economic analysis and informing policy decisions. However, expectations for GDP growth and inflation are quantitative and reported as simple averages, while information on firms' choice of credit markets and sources of financing is presented as proportions, that is, the percentage of firms selecting each option. Therefore, the results should be interpreted as indicative of business sentiment and directional trends rather than precise point forecasts.

(b) Highlights of the Survey Results

Firms were generally pessimistic about business conditions in the second and third quarters of 2026. However, sentiment improved for the 12 months to June 2027, likely driven by expectations of successful implementation of some projects in the National Development Plan (12) and Botswana Economic Transformation Programme (BETP). The high cost of finance, followed by limited government spending, were identified as major constraints to business operations, reflecting elevated domestic lending rates amid subdued domestic liquidity conditions, although these conditions stabilised in the second quarter of 2026, and the country's weakened fiscal position. In addition, the exchange rate environment was perceived as unfavourable, partly due to adjustment costs and spillover effects associated with the July 2025 exchange rate parameter changes. Notably this signifies the import intensity of the Botswana economy. In contrast, export-oriented and import-substituting entities would consider the adjustments as favourable. Furthermore, firms anticipate both lending interest rates and borrowing volumes to increase in the year to June 2027. However, overall cost pressures were expected to decrease in the second quarter of 2026, mainly due to the anticipated decrease in input costs. Consequently, firms anticipated inflation to remain within the 3 – 6 percent objective range in both 2026 and 2027, suggesting well anchored inflation expectations.

2. Business Conditions and Economic Performance

National output expected to recover modestly in 2026

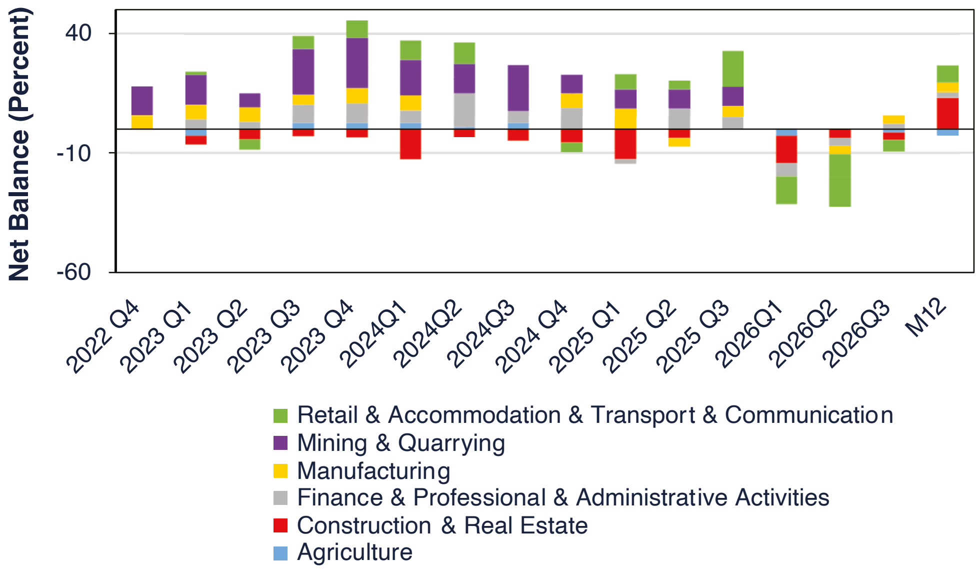
2.1 Firms expect overall output to expand by 2.1 percent in 2026, marking a modest recovery from the 0.7 percent contraction in 2025. The positive outlook suggests a gradual stabilisation in growth momentum, broadly aligned with the Ministry of Finance's projection of 3.1 percent growth in 2026. For the second and third quarters of 2026, firms anticipate modest growth of 1.3 percent and 1.8 percent, respectively.

2.2 Firms in the Construction and Real Estate; Finance, Professional and Administrative Activities; Retail, Accommodation, Transport and Communication; and Manufacturing sectors expressed pessimism about business conditions in the second quarter of 2026 (Chart 1). By contrast, firms in the Mining and Quarrying and Agriculture sectors assessed business conditions to be neutral during the period under review.

2.3 Furthermore, firms in Retail, Accommodation, Transport and Communication; Construction and Real Estate; and Agriculture sectors were pessimistic about business conditions in the third quarter of 2026 (Chart 1). By contrast, firms in Manufacturing and Finance, Professional and Administrative activities were optimistic. Meanwhile, firms in the Mining and Quarrying sector reported a neutral perception on business conditions in the third quarter of 2026.

2.4 In addition, firms in the Agriculture sector were pessimistic about business conditions in the year to June 2027 (Chart 1). Meanwhile, firms in the Construction and Real Estate; Finance, Professional and Administrative activities; Retail, Accommodation, Transport and Communication; and Manufacturing sectors were optimistic about business conditions over the same period. By contrast, firms in the Mining and Quarrying sector considered business conditions for the period to be neutral.

Chart 1: Expected Drivers of Economic Activity



Source: Bank of Botswana

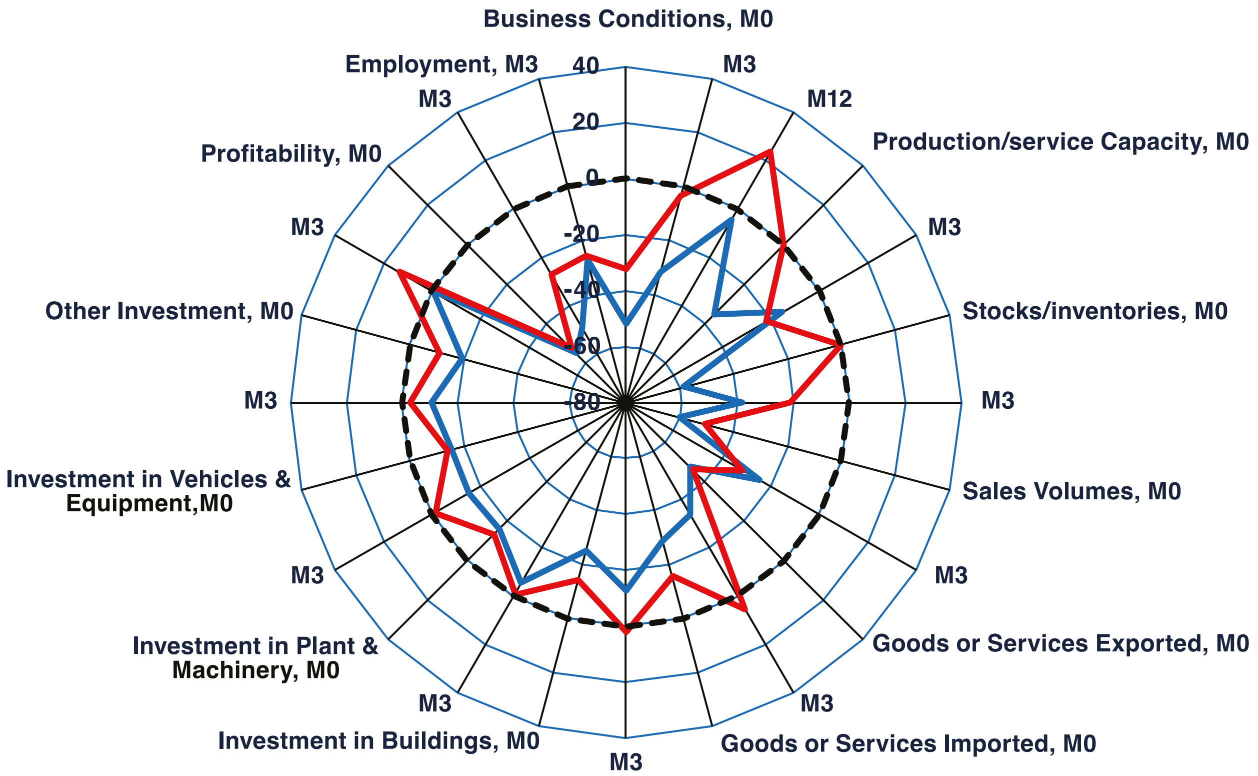
Notes:

1. The chart shows net balances of economic performance expectations across all sectors for the second and third quarters of 2026, as well as for the 12-months to June 2027 (M12).

2. The net balances are weighted by each sector's relative contribution to 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) x 100 x Z].

2.5 Overall, firms perceived business conditions to be less supportive of economic activity in the second and third quarters of 2026 (Chart 2). The negative outlook possibly reflects perceptions of fiscal position for the country, characterised by lower government revenue and constrained cash flows, thereby limiting the pace of government spending. These conditions largely reflect weaker diamond export earnings relative to the preceding years, which have adversely affected government revenue and domestic liquidity conditions. Nevertheless, firms expressed optimism about business conditions in the 12-month period to June 2027 compared to the second and third quarters of 2026. This improved sentiment could be attributable to the anticipated benefits from government initiatives aimed at supporting economic recovery and improving the business environment, including measures and proposals outlined in NDP 12 and BETP.

Chart 2: Summary of Economic Conditions



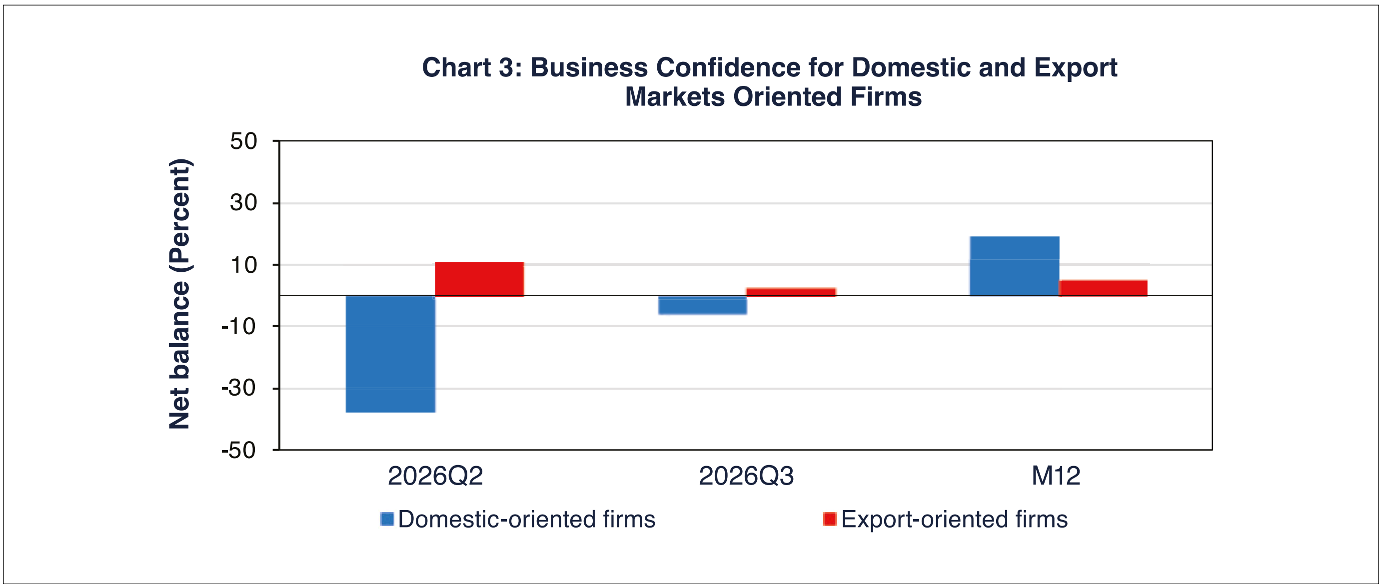
Source: Bank of Botswana

Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the March 2026 Survey, while the red line represents the results of the June 2026 Survey. The black dashed line is the static position, representing neutral expectations.
2. The net balances reflecting respondents' views on economic conditions are plotted along the slanted lines extending from the centre of the chart. Movements away from the centre of the chart show an improvement, while movements towards the centre of the chart represent a deterioration.
3. The current survey results, represented by the red line, represent firms' perceptions of business conditions in the second quarter of 2026 (M0), the third quarter of 2026 (M3) and the 12 months to June 2027 (M12).

2.6 Chart 3 shows moderation in pessimism among domestic market-oriented firms in the second and third quarters of 2026. Moreover, business confidence was positive for the 12-month period to June 2027. The improvement in confidence was mainly driven by firms in the Manufacturing; Construction and Real Estate; and Retail, Accommodation, Transport and Communication sectors. The pessimistic outlook in the second quarter may reflect uncertainty surrounding input and import costs, subdued global economic conditions, and supply chain disruptions arising from heightened geopolitical tensions. In addition, the perceived slow pace of government spending, particularly on development projects, may further constrain business activity.

2.7 By contrast, export-oriented firms were optimistic about business conditions from the second quarter of 2026 to June 2027. This positive outlook is partly consistent with the exchange rate parameter adjustments, including a higher downward rate of crawl of the Pula implemented in July 2025 to support export competitiveness.

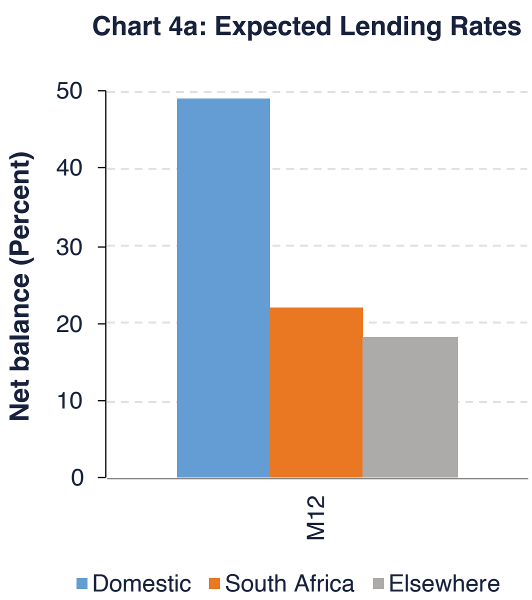


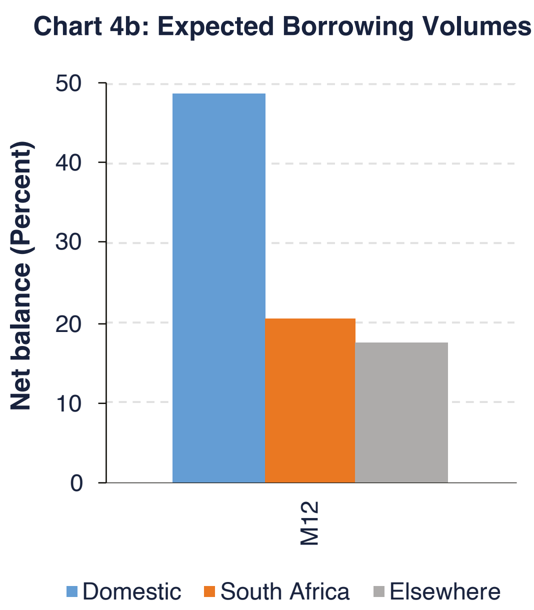
Source: Bank of Botswana

3. Lending Interest Rates and Borrowing Volumes

Lending interest rates and borrowing volumes expected to increase across all markets in the 12 months to June 2027 (M12)

3.1 Firms expect lending interest rates to increase across all markets (domestic, South Africa and elsewhere) in the year to June 2027, with the strongest increase anticipated in the domestic market (Chart 4a). This expectation is possibly influenced by currently elevated domestic lending rates amid recent liquidity distribution challenges in the banking system and continuation of weak domestic economic activity. Notwithstanding the anticipated rise in lending interest rates, firms also expect borrowing volumes to rise across all markets in the same period (Chart 4b), with most firms preferring to borrow domestically. The expected rise in credit demand may partly reflect increased working capital requirements and liquidity management needs rather than expansionary investment intentions.

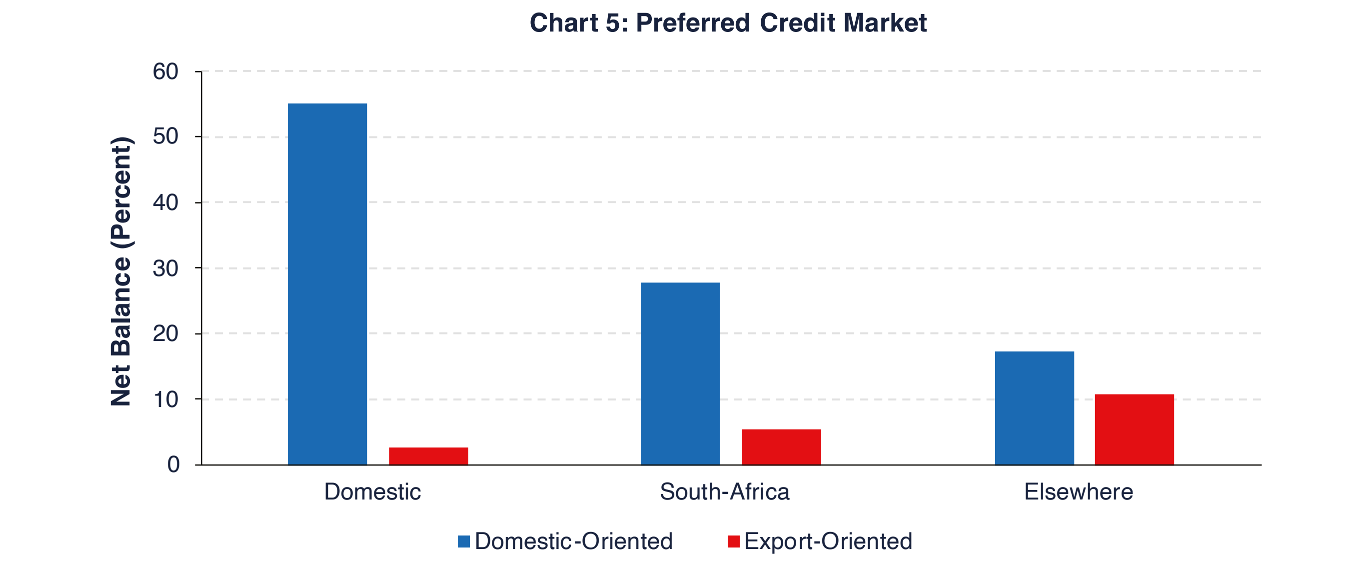




Source: Bank of Botswana

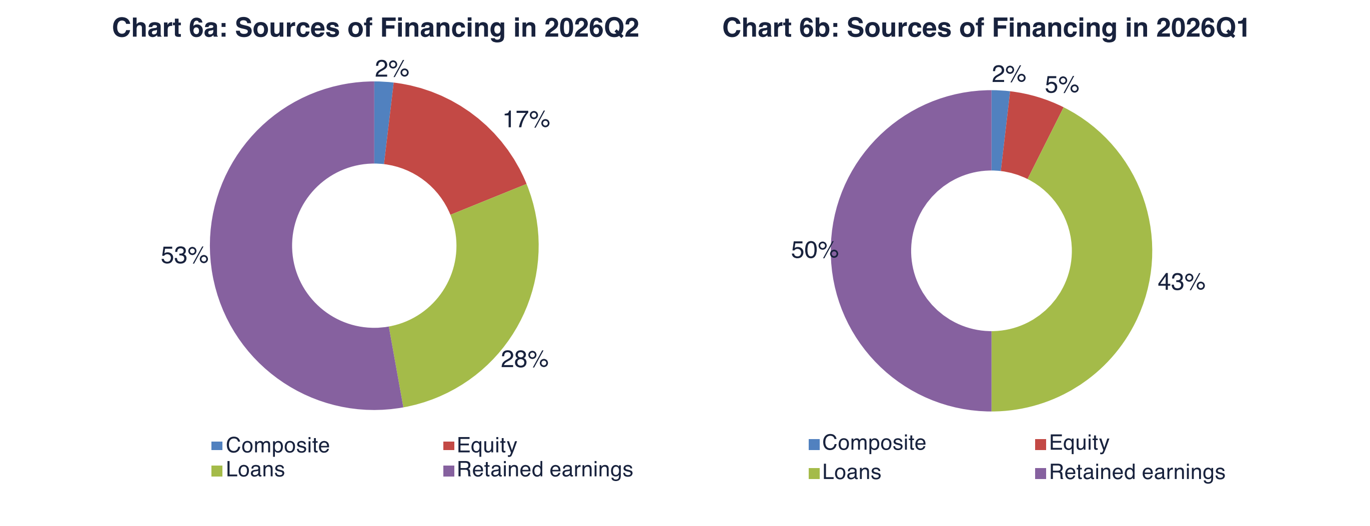
3.2 Most domestic market-oriented firms preferred to borrow domestically (Botswana) compared to South Africa and elsewhere in the year ending June 2027 (Chart 5), indicating continued reliance on domestic credit markets. In contrast, export market-oriented firms preferred to borrow elsewhere, reflecting their greater integration into international capital markets. This preference may be attributed to their foreign currency earnings, which allow them to better align financing with revenue streams and reduce currency mismatches, while also providing access to a wider range of financing options and potentially more competitive borrowing terms from foreign lenders compared to their domestically focused counterparts.

3.3 Market preference is influenced by other factors, including the availability of credit, access to credit facilities, the affordability of credit, and the interaction of these conditions. Approximately 45 percent of the firms surveyed indicated that their borrowing preference is primarily determined by access to credit, while 25 percent cited availability, 20 percent pointed to affordability, and the remaining 9 percent highlighted a combination of these factors. This suggests that barriers to accessing credit, such as collateral requirements and stringent documentation of credit history, may pose significant constraints on firms' access to finance, potentially outweighing the impact of borrowing costs. These constraints are likely to disproportionately affect small, medium and micro enterprises, limiting their ability to secure external financing.



Source: Bank of Botswana

3.4 Further, some firms continued to rely primarily on retained earnings to finance their operations in the second quarter of 2026, consistent with the findings of the previous survey (Chart 6a and 6b). In contrast, the preference for loans declined from 43 percent to 28 percent, while the share of firms preferring equity financing increased from 5 percent to 17 percent. Meanwhile, the preference for composite financing remained unchanged at 2 percent. The increased reliance on retained earnings, alongside the decline in loan financing, may signal tighter credit conditions in Botswana, suggesting that banks have become more cautious in extending credit to firms, amid slower economic growth and heightened uncertainty.

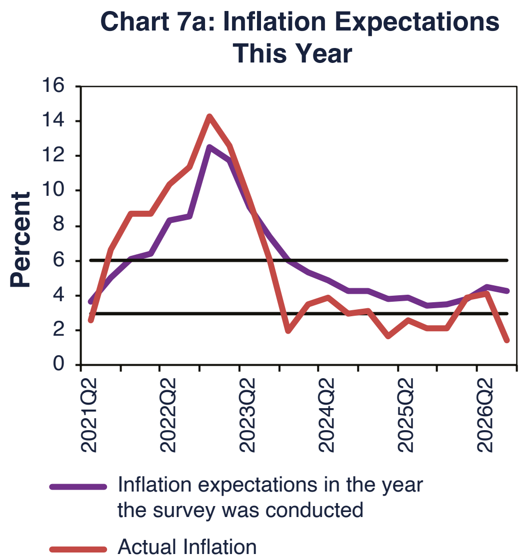


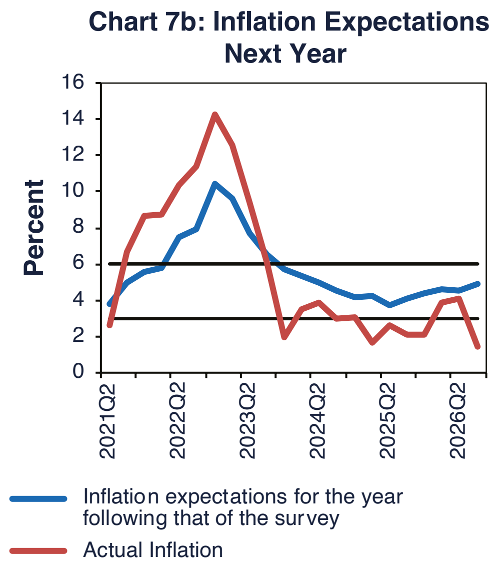
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to decrease in the second quarter of 2026

4.1 Overall, firms expect cost pressures to decrease in the second quarter of 2026 compared with the first quarter of 2026, mainly due to anticipated deceleration in input costs, particularly for utilities, wages, materials and transport. As a result, firms expect domestic inflation to average 4.3 percent in 2026 down from 4.5 percent in the previous survey, before rising to an average of 4.9 percent in 2027 (Charts 7a and 7b). Nonetheless, firms expect inflation to remain within the 3 – 6 percent medium-term objective range in both 2026 and 2027, indicating that inflation expectations remain well anchored. However, this outlook is likely to change going forward, if inflationary pressures persist, particularly those stemming from higher imported prices associated with elevated global commodity prices and ongoing supply-side cost pressures.





Source: Bank of Botswana

5. Factors Affecting Business Conditions in the Second Quarter of 2026

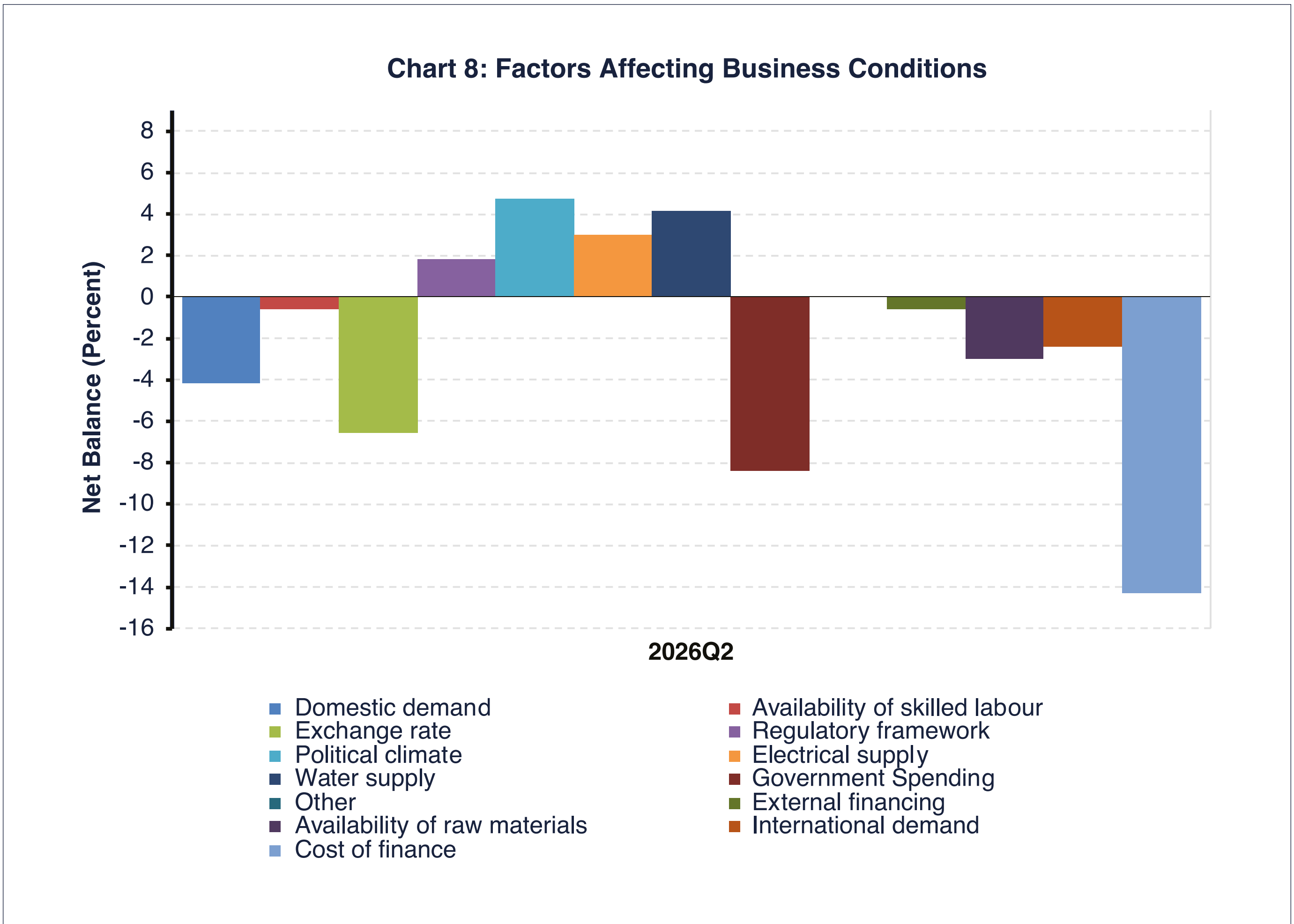
5.1 Cost of finance was cited as the major factor adversely affecting business operations in the second quarter of 2026. This may be attributed to relatively high borrowing costs, stringent collateral requirements and cautious bank lending practices, all of which may have increased the cost of borrowing. This was followed by constrained government spending and an unfavourable exchange rate environment[1] (Chart 8). A positive perspective regarding the exchange rate would, however, be that it would favour exporters and entities competing against imports.

5.2 The views on government spending are associated with weaker fiscal position, characterised by lower government revenue and reduced expenditure, while the unfavourable exchange rate environment highlights the high import

1. From the perspective of firms, unfavourable exchange rate movements primarily reflect the gradual depreciation of the pula against the South African rand, which has increased the cost of imported production inputs. Given Botswana's reliance on imports from South Africa, for producers/manufacturers, higher input costs potentially result in higher production costs and compressed profit margins, limiting firms' ability to expand production, achieve economies of scale, and compete effectively in export markets. In addition, retail and wholesale respondents would reference the higher cost of imported stocks and, similarly potential to compress margins and/or moderate demand.

intensity of local businesses and the broader economy. These challenges underscore the need to intensify the messaging around the need for reorientation of the economy, including adaptation of transformation initiatives geared towards enhancing domestic industry competitiveness, expanding domestic production and promoting export-orientation for market expansion.

5.3 Other challenges cited include subdued international and domestic demand, limited availability of raw materials, lack of skilled labour and constrained access to external financing. On the positive side, firms highlighted several supportive conditions for business activity. These include reliable water and electricity supply, a stable political environment and a predictable regulatory framework. These factors are viewed as contributing positively to the business environment, even though the broader operating context remains challenging.



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were less pessimistic about business conditions in the second quarter of 2026, compared to the first quarter of 2026. Looking further ahead, firms were optimistic over the 12-month period to June 2027. The expected improvement may reflect government interventions to support economic activity, including measures and reforms aimed at improving the business environment. Meanwhile, firms expect the domestic economy to grow by 2.1 percent in 2026, a modest recovery from the 0.7 percent contraction recorded in 2025. Inflation is expected to average 4.3 percent in 2026, indicating that inflation expectations remain well anchored within the 3–6 percent objective range.

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