QUARTERLY BUSINESS EXPECTATIONS SURVEY

SEPTEMBER I 2026



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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 September 2026 BES report presents business expectations for the third quarter of 2026 (M0), the fourth quarter of 2026 (M3), and the 12-month period from October 2026 to September 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 53 percent, one percentage point lower than the June 2026 survey. While the response rate was relatively low, the 53 responses from firms were sufficiently representative of the sampled firms across the 13 economic sectors, including key sectors with significant contributions to GDP. As such, the survey findings provide a reasonable indication of prevailing business conditions, although the results should be interpreted with due consideration of the response rate.

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 (neutral) 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, excluding neutral responses. The net balances are then weighted by each sector's relative contribution to nominal 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 third and fourth quarters of 2026. However, sentiment improved for the 12 months to September 2027, likely driven by expectations of successful implementation of projects under the National Development Plan 12 (NDP 12) and Botswana Economic Transformation Programme (BETP) over time. Constrained government spending, an unfavourable exchange rate, the high cost of finance and weak domestic demand were identified as major constraints to business operations. These concerns reflect a weaker fiscal position and initial impact of fiscal consolidation elevated domestic lending interest rates, and

reliance on imported goods and production inputs. Firms also anticipate lending interest rates and borrowing volumes to increase in the year to September 2027, while overall cost pressures are expected to rise in the third quarter of 2026. Inflation is consequently expected to breach the upper bound of the objective range in 2026 before returning to within the range in 2027.

2. Business Conditions and Economic Performance

National output expected to recover in 2026

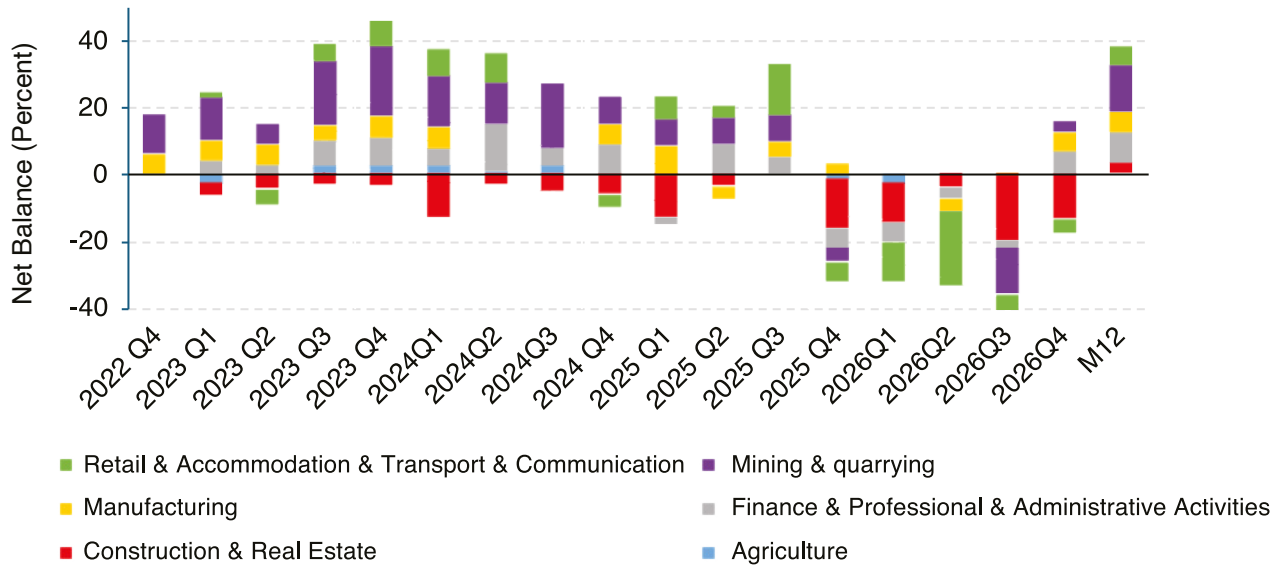
2.1 Firms anticipate overall output growth of 4.9 percent in 2026, following a contraction of 0.7 percent in 2025. The positive outlook is 1.1 percentage points above the Ministry of Finance projection of 3.8 percent and, therefore, represents a relatively optimistic private-sector assessment. The difference may reflect firms' expectations that NDP 12 and BETP projects will support construction and related services, while activity in finance, professional and administrative services, manufacturing and selected export-oriented businesses strengthens. However, the projected recovery is subject to significant downside risks from fiscal constraints, weak diamond-sector performance, subdued domestic demand, and elevated financing costs. Firms' expectations should, therefore, be interpreted as a sentiment-based outlook rather than evidence that a broad-based recovery is already firmly established. On a quarterly basis, firms expect output to grow by 1.9 percent and 2.8 percent in the third and fourth quarters of 2026, respectively.

2.2 Firms in the Construction and Real Estate; Mining and Quarrying; Retail, Accommodation, Transport and Communication; and Finance, Professional and Administrative Activities sectors expressed pessimism about business conditions in the third quarter of 2026 (Chart 1). By contrast, firms in the Agriculture sector assessed business conditions to be neutral during the period under review. Compared with the June survey's assessment of the second quarter of 2026, the September survey's assessment of the third quarter indicates a deterioration in Mining and Quarrying from neutral to pessimistic sentiment. Construction and Real Estate; Finance, Professional and Administrative Activities; and Retail, Accommodation, Transport and Communication remained pessimistic, while Agriculture remained neutral.

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

2.4 In addition, firms across all sectors expressed optimism about business conditions in the year to September 2027, except for the Agriculture sector, where business conditions were expected to remain neutral (Chart 1), possibly reflecting the uncertain outlook associated with the anticipated super El Niño conditions.

Chart 1: Expected Drivers of Economic Activity



Source: Bank of Botswana

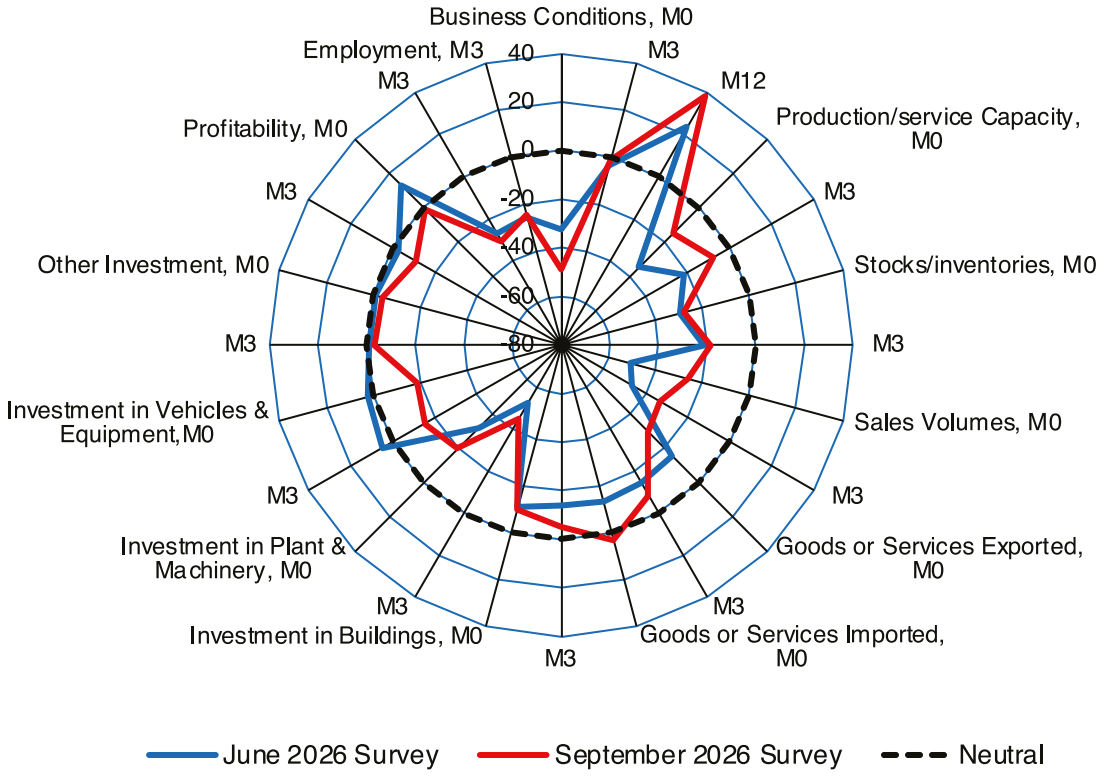
Notes:

1. The chart shows net balances of economic performance expectations across all sectors for the third and fourth quarters of 2026, as well as for the 12 months to September 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 third and fourth quarters of 2026 (Chart 2). The negative outlook possibly reflects perceptions of the country's fiscal position, given the dependence of economic activity on government spending. These developments largely reflect weaker diamond export earnings relative to the preceding years, which have adversely affected government revenue and, for some time, domestic liquidity conditions. Nevertheless, firms expressed optimism about business conditions in the 12-month period to September 2027 compared to the third and fourth 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

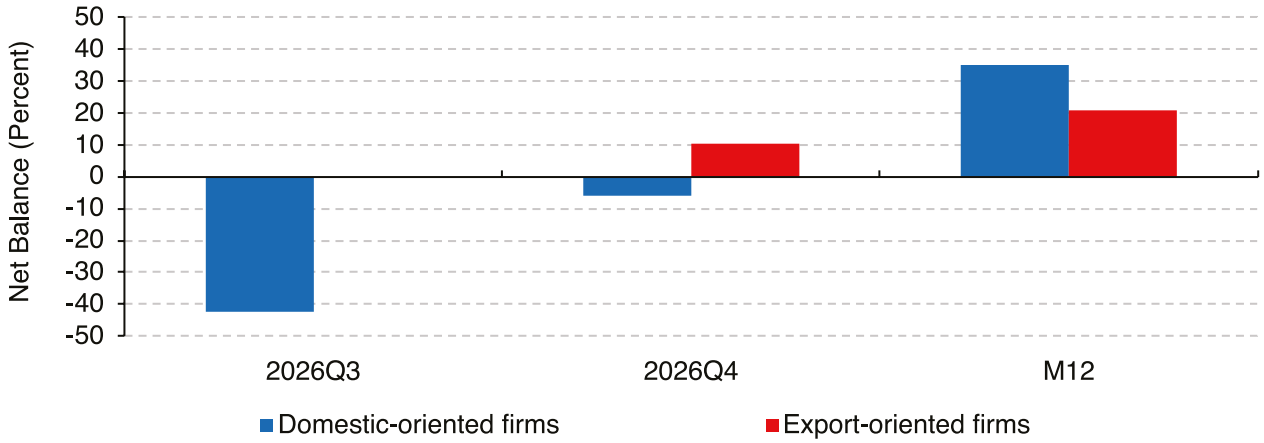
Notes:

1. The chart summarises firms' expectations about business conditions. The blue line represents the results of the June 2026 Survey, while the red line represents the results of the September 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 third quarter of 2026 (M0), the fourth quarter of 2026 (M3), and the 12 months to September 2027 (M12).

2.6 Chart 3 indicates that domestic market-oriented firms were more pessimistic about business conditions in the third quarter of 2026. This sentiment may reflect uncertainty related to input and import costs, subdued global economic conditions, and supply chain disruptions associated with heightened geopolitical tensions. In addition, the perceived slower pace of government spending, particularly on development projects, may influence perceptions on domestic business activity further. However, pessimism moderated in the fourth quarter of 2026. Looking ahead, firms expressed positive business confidence over the 12-month period to September 2027, largely supported by favourable sentiment among firms in the Construction and Real Estate, and Finance, Professional and Administrative Activities sectors.

2.7 By contrast, export-oriented firms assessed business conditions to be neutral in the third quarter of 2026, but were optimistic in the fourth quarter of 2026 and over the 12-month period to September 2027. The July 2025 exchange-rate adjustments, including a higher downward rate of crawl of the Pula, were intended to support export competitiveness, preserve foreign exchange reserves, and encourage greater activity in the interbank foreign-exchange market. These are intended policy channels; however, the survey results do not establish that firms have already realised competitiveness gains. The expectation is that exporters' optimism may reflect a likely positive impact that would manifest as improvements in export volumes, profit margins, and market share.

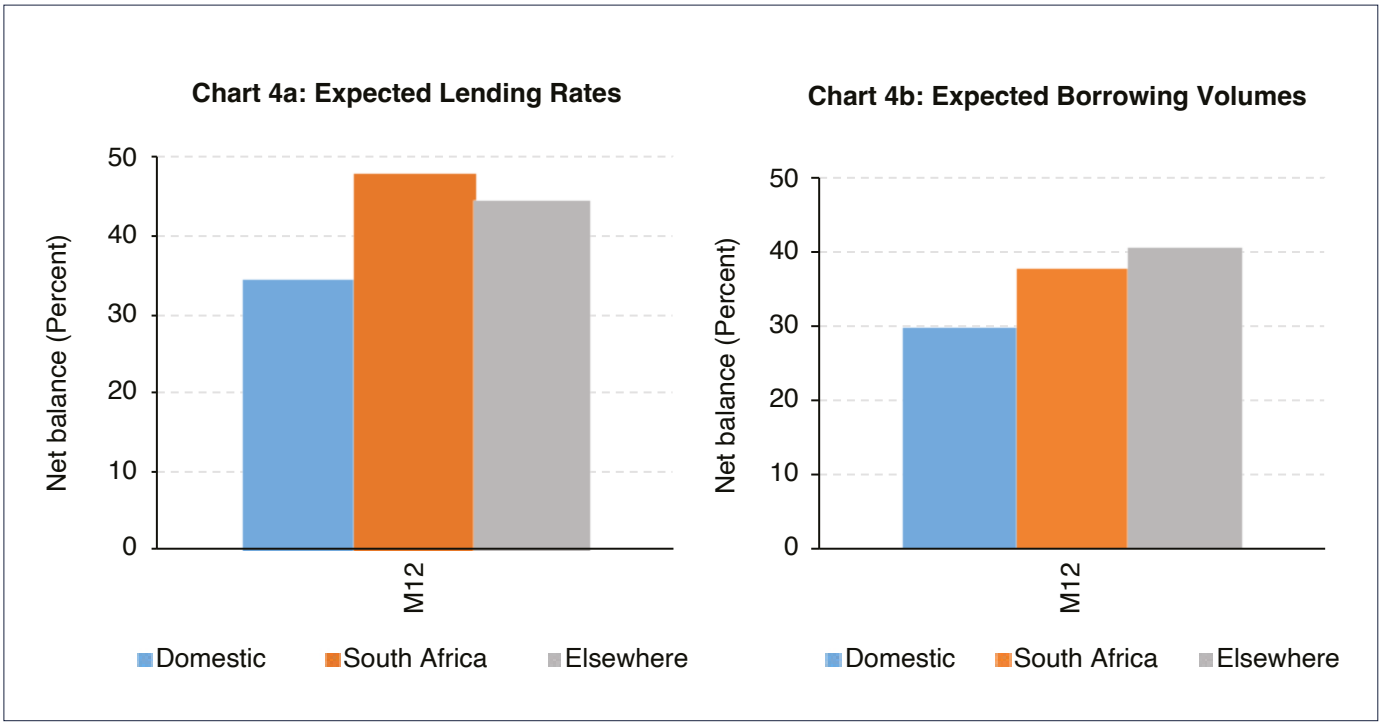
Chart 3: Business Confidence for Domestic and Export Markets Oriented Firms



Source: Bank of Botswana

3. Lending Interest Rates and Borrowing Volumes

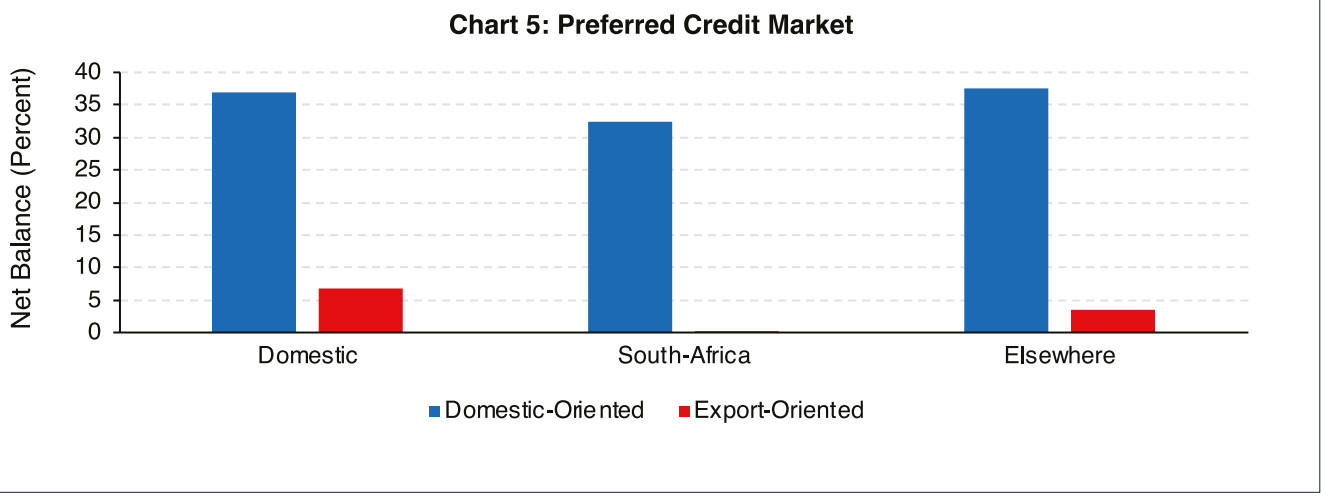
Lending interest rates and borrowing volumes are expected to increase across all markets. Firms expect lending interest rates to increase across all markets (domestic, South Africa and elsewhere) in the year to September 2027 (Chart 4a). This expectation is possibly influenced by currently elevated domestic lending interest 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). The anticipated increase in credit demand may primarily reflect firm's working capital needs rather than expansionary investment. Against a backdrop of subdued business conditions and constrained liquidity, businesses may increasingly rely on credit to support cash flow requirements and sustain operations, notwithstanding the higher cost of borrowing.



Source: Bank of Botswana

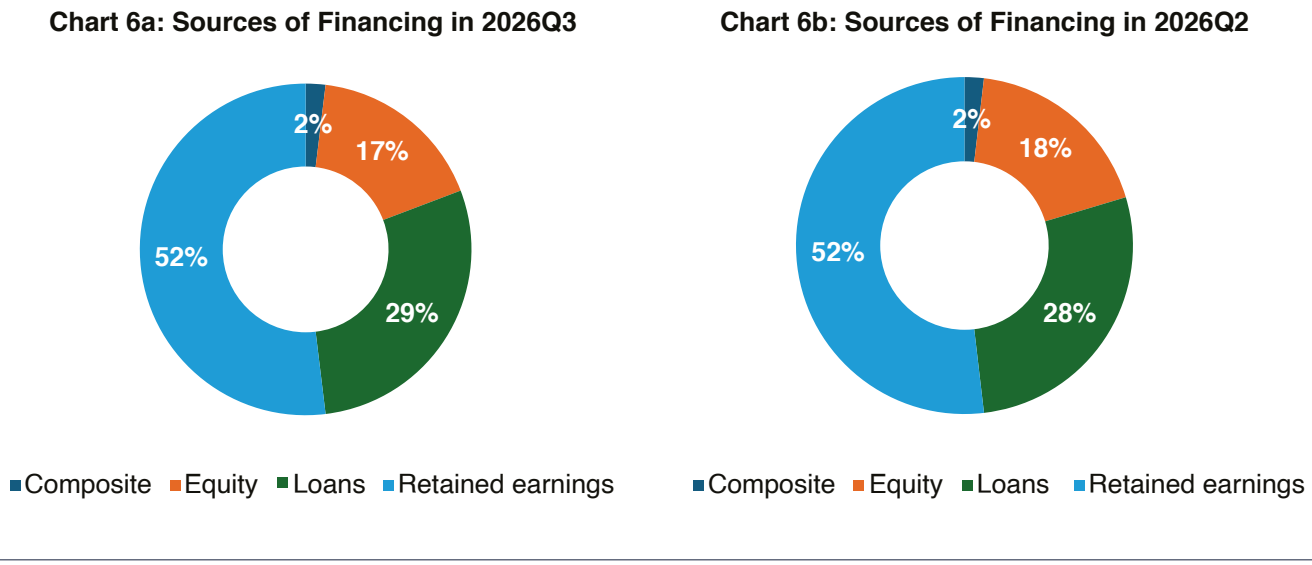
3.1 Most domestic market-oriented firms preferred to borrow domestically (Botswana) compared to South Africa and elsewhere in the year ending September 2027 (Chart 5), indicating continued reliance on domestic credit markets. Meanwhile, export market-oriented firms preferred to borrow domestically and elsewhere, reflecting their 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.

3.2 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 44 percent of the firms surveyed indicated that their borrowing preference is primarily determined by access to credit, while 33 percent cited availability, 16 percent cited affordability, and the remaining 7 percent highlighted a combination of these factors. The survey did not ask respondents to identify specific access barriers. However, although not specifically reported by respondents, collateral requirements and credit-history documentation are, therefore, possible explanations inferred from the results. Such constraints may disproportionately affect small, medium, and micro enterprises, but further evidence would be required to establish their importance in this survey.



Source: Bank of Botswana

3.3 Most firms continued to rely primarily on retained earnings to finance their operations in the third quarter of 2026, consistent with the previous survey (Chart 6a and 6b). The preference for loans increased slightly from 28 percent to 29 percent, while the share of firms preferring equity financing declined slightly from 18 percent in the second quarter, as reported in Chart 6b, to 17 percent in the third quarter, while the preference for composite financing remained unchanged at 2 percent. Continued reliance on retained earnings, alongside a marginal increase in loan preference only, may nevertheless be consistent with cautious borrowing behaviour and tight credit conditions amid slower growth and elevated uncertainty.



Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to increase in the third quarter of 2026

4.1 Overall, firms anticipate an increase in cost pressures in the third quarter of 2026 compared with the second quarter, reflecting expected increases in operating costs, exchange-rate-related import costs and the potential pass-through to prices for goods and services following the income-tax increases implemented in July 2026. Firms consequently expect domestic inflation to average 7.2 percent in 2026, a sharp rise from 4.3 percent in the previous survey, before moderating to 4.9 percent in 2027 (Charts 7a and 7b). The expected return to the 3 – 6 percent medium-term objective range in 2027 points to medium-term moderation of inflation. The outlook remains subject to upside risks, particularly elevated global commodity prices. Exchange rate pass-through and persistent domestic supply-side cost pressures.

Chart 7a: Inflation Expectations this Year

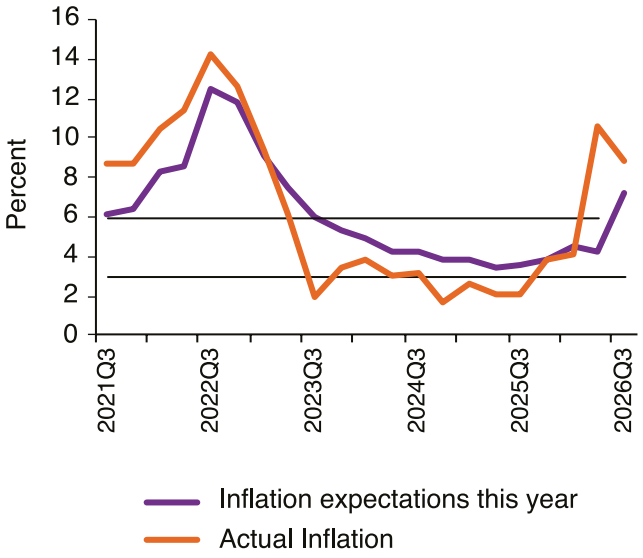
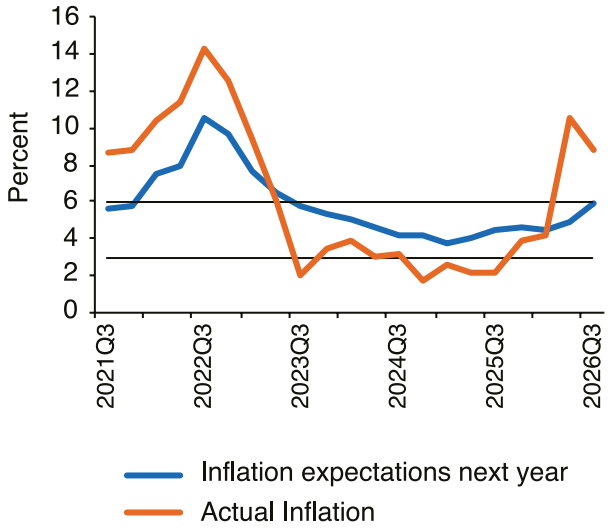


Chart 7b: Inflation Expectations next Year



Source: Bank of Botswana

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

5.1 Constrained government spending was cited as the main factor adversely affecting business operations in the third quarter of 2026. This reflects perceptions of weaker fiscal position and the impact of fiscal consolidation. Unfavourable exchange rate[1] environment was also cited as a key constraint, reflecting the economy's reliance on imported goods and production inputs and dominance of import-oriented businesses. Notwithstanding the adverse effects on import-dependent businesses, the depreciation of the Pula may benefit exporters and

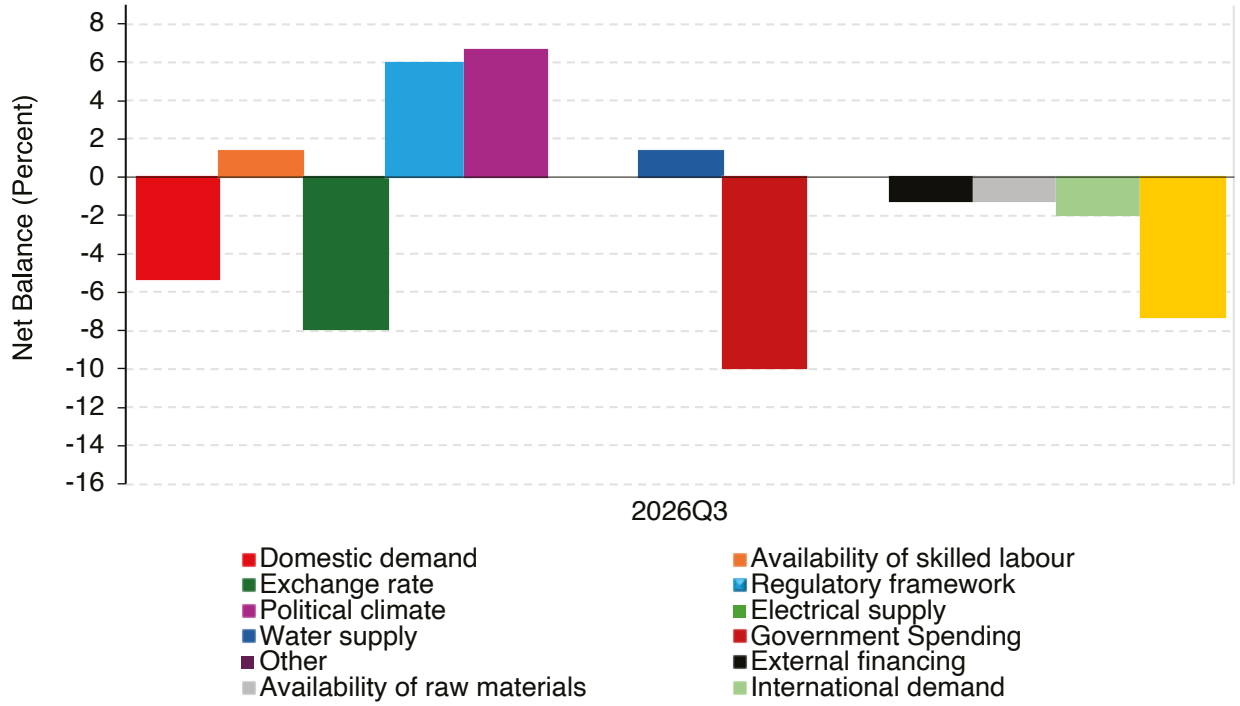
1. From the perspective of firms, unfavourable exchange rate movements primarily reflect the gradual depreciation of the pula against the South African rand, which has increased the cost of imported production inputs.

domestic producers competing with imported goods by improving their price competitiveness. The high import intensity of local businesses and the broader economy reinforce the need to accelerate economic diversification and transformation initiatives aimed at strengthening domestic industrial capacity, enhancing competitiveness, expanding local production and promoting export-oriented growth (Chart 8).

5.2 Other constraints included the high cost of finance, which may reflect relatively high borrowing costs, stringent collateral requirements and cautious lending practices by banks, as well as subdued domestic demand associated with weaker consumption. These financing and demand constraints may hinder firms from expanding domestic production and investing in the capacity needed to replace imported goods with locally produced alternatives. Diversification measures should, therefore, address these constraints alongside efforts to expand productive capacity.

5.3 On the positive side, firms highlighted several supportive conditions for business activity. These include a stable political environment, a predictable regulatory framework, and reliable water and electricity supply. These factors are viewed as contributing positively to the business environment, even though the broader operating context remains challenging.

Chart 8: Factors Affecting Business Conditions



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were generally pessimistic about business conditions in the third quarter of 2026, although sentiment improved relative to the second quarter. Firms were more optimistic over the 12-month period to September 2027, partly on expectations that government measures and reforms would support activity and improve the business environment. They expect the economy to grow by 4.9 percent in 2026, a marked recovery from the 0.7 percent contraction in 2025, but the outlook remains exposed to fiscal constraints, weak diamond sector performance, and subdued domestic demand. Inflation is expected to average 7.2 percent in 2026 before moderation to 4.9 percent in 2027. For monetary policy, the survey findings highlight a difficult balancing act between weak business confidence and high financing costs, which may constrain investment, credit demand, and economic recovery.

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