

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



JUNE 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 over the survey horizon. Furthermore, the survey sought to ascertain the impact of the COVID-19 pandemic on business activities. 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 June 2021 BES Report presents business expectations about the current period (Q2:2021), the third quarter of 2021 (Q3:2021); and the twelve-month period (M12) from July 2021 - June 2022 (Q3:2021-Q2:2022). Thus, 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, are in place, as part of measures adopted by the authorities aimed at containing the spread of the COVID-19 pandemic. However, the survey period falls in the period when the restrictions are less stringent compared to 2020, with international travel allowed with proof of a negative COVID-19 Polymerase Chain Reaction test performed no more than 72 hours prior to travel and domestic intra-zone movement allowed.
- 1.3 The BES samples 100 businesses from eight economic sectors, namely: Agriculture; Mining; Manufacturing; Water and Electricity; Construction; Trade, Hotels and Restaurants; Transport and Communications; and Finance and Business Services. The response rate for the current survey is 70 percent, as in March 2021.
- 1.4 The survey questions focused mainly on anticipated direction of change in selected indicators, that is whether conditions are expected to improve, worsen or remain unchanged. The results are then consolidated into an overall measure called 'net balance'. This measure is 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). Thus, by design, the survey responses are predominantly qualitative, yet 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 by computing or using simple averages.

Highlights of the Survey Results

- 1.5 The results suggest that firms were less pessimistic about economic activity in the second quarter of 2021 compared to the previous quarter (Chart 2), but anticipate tight access to credit across all markets. Firms also expect cost pressures to rise in the third quarter of 2021, mainly reflecting second round effects of the upward adjustment of Value Added Tax (VAT) by 2 percentage points, effective April 2021. Firms expect average inflation to be within the Bank's medium-term objective range of 3 - 6 percent in 2021 and 2022.

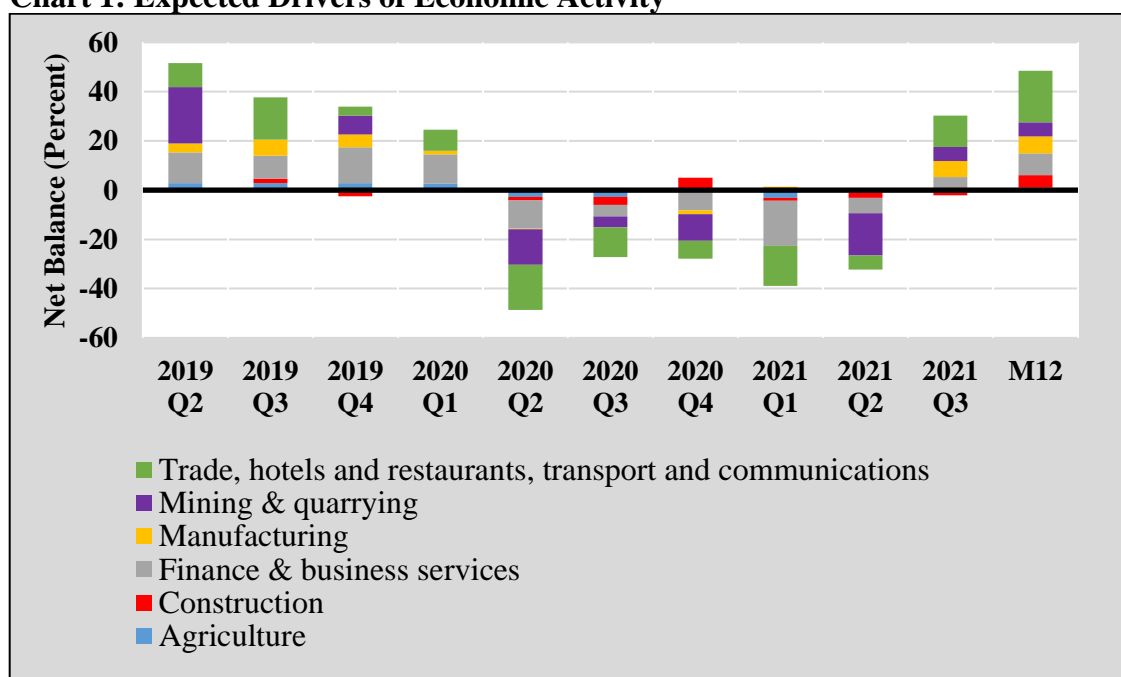
1.6 Meanwhile, COVID-19 containment measures have negatively affected business operations in the second quarter of 2021, and the most affected are businesses in the Trade, Hotels, Restaurants, Transport and Communications¹; Finance and Business Services; and the Manufacturing sectors. In general, firms anticipate that their businesses will recover from the impact of COVID-19 a year after June 2021.

2. Economic Performance and Business Conditions

Output is expected to increase in 2021

2.1 Firms expect overall output to expand by 2.9 percent in 2021, which is a significantly less optimistic view compared to the projected 8.8 percent and 8.3 percent growth by the Ministry of Finance and Economic Development, and the International Monetary Fund, respectively. On quarterly basis, firms expect GDP to increase by 3.2 percent and 3.7 percent in the second and third quarters of 2021, respectively. Expectations about growth in the second quarter of 2021, are misaligned with the expected deterioration in sectoral performance in the same period (Chart 1). However, the positive growth expected in the third quarter of 2021 is consistent with the anticipated improvement in business conditions and the envisaged global economic recovery during 2021 (Chart 1), even though the recovery is threatened by the emergence of new variants of COVID-19 and shortcomings with the domestic and global vaccine rollout.

Chart 1: Expected Drivers of Economic Activity



Source: Bank of Botswana

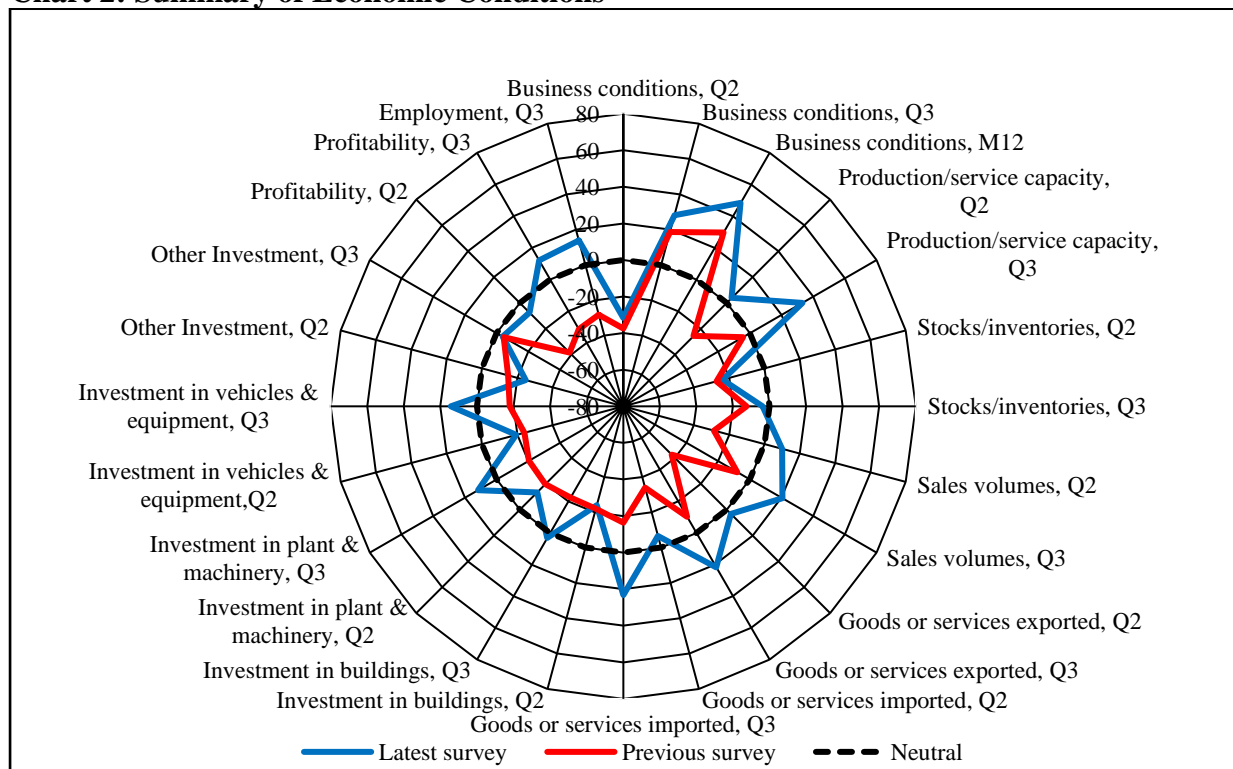
Note: The chart shows net balances on each sector's expectations about economic performance from the second quarter of 2019 to the third quarter of 2021 and the 12 months period to June 2022. The net balances are weighted by each sector's relative share in GDP. For example, for a sector with (P+N) members 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 $[(P-N)/P+N] \times 100 \times Z$.

¹ The Trade, Hotels and Restaurants, and Transport and Communications sectors are merged for ease of analysis since the two are interconnected.

2.2 Notably, firms in the Trade, Hotels, Restaurants, Transport and Communications and Finance sectors were less pessimistic about economic growth prospects in the second quarter of 2021 compared to the previous quarter. This is consistent with the less stringent COVID-19 movement restrictions. However, the Mining and Quarrying sector expects a more unfavourable economic performance compared to the first quarter, consistent with the resurgence of infections and the disruptions to business and trade arising from the COVID-19 pandemic containment measures, subdued global demand and sales of rough diamonds and possibly the slow roll-out of the COVID-19 vaccine. For the third quarter of 2021, firms across all sectors, except Agriculture and Construction are optimistic about economic performance.

2.3 Firms in all sectors are optimistic about economic recovery in the year to June 2022, led by the Trade, Hotels, Restaurants, Transport and Communications sectors. The perceived improvement in economic performance in the current survey compared to the previous one is associated with the less stringent COVID-19 travel restrictions and continued business operations in several sectors (Chart 2).

Chart 2: Summary of Economic Conditions



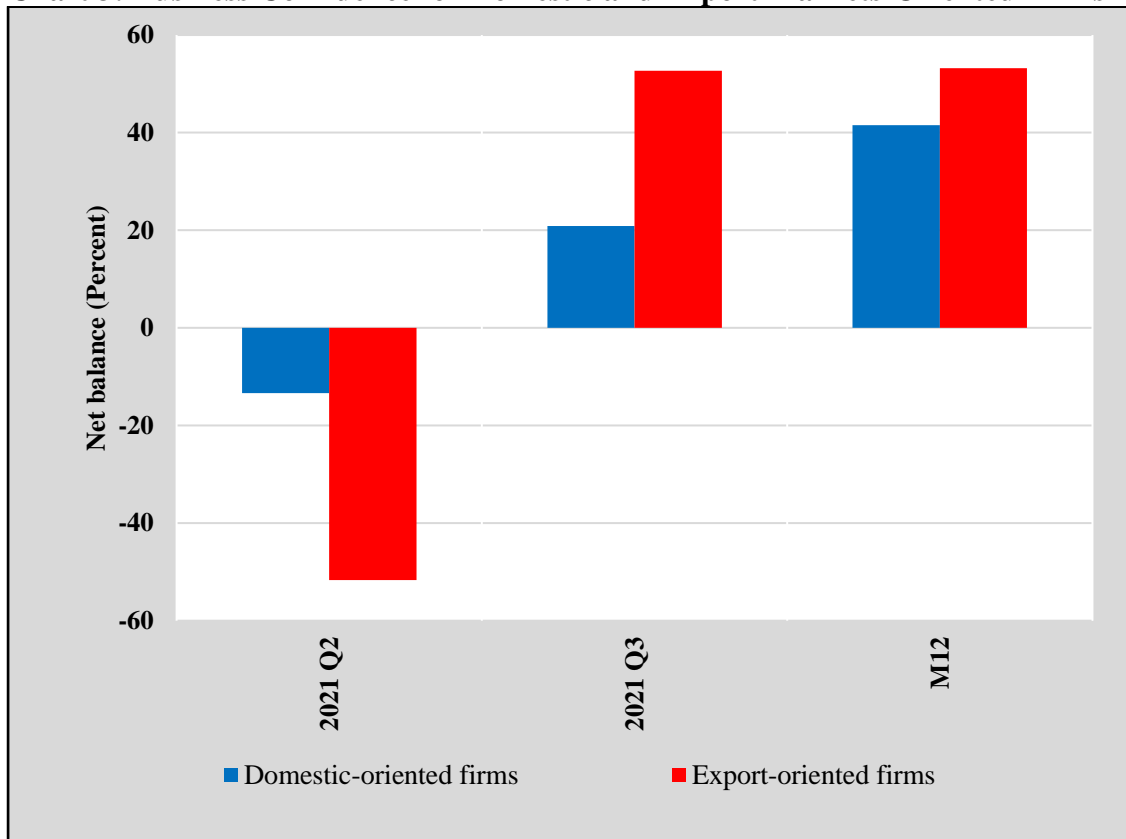
Source: Bank of Botswana

Notes: The chart summarises firms’ expectations about business conditions. The blue line represents the results of the June 2021 Survey, while the red line represents the results of the March 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: Q2 denotes perceptions about business conditions in the second quarter of 2021, Q3 represents expectations about business conditions for the third quarter of 2021, while M12 depicts the perceived business conditions for the twelve-month period from July 2021 to June 2022. Similarly, the red line denotes perceptions about business conditions as envisaged in the previous survey.

3. As reflected in Chart 3, optimism among domestic market-oriented firms improves markedly in the third quarter of 2021 compared to the second quarter of 2021, reflecting continued efforts to reopen businesses and resume activities that were postponed or restricted due to the COVID-19 pandemic, even though the third wave of COVID-19 infections is likely to reverse the effort. The level of optimism rises further in the twelve-month period to June 2022 (M12) consistent with the anticipated continued domestic economic recovery, going forward. Confidence in the domestic market-oriented firms is mainly driven by firms in the Trade, Hotels, Restaurants, Transport and Communications; Manufacturing; and Finance and Business Services sectors as the general economic performance is expected to improve in the near future.
- 3.1 Optimism among export market-oriented firms about business conditions increases the most in the third quarter of 2021 and in the twelve-month period to June 2022. Firms, predominantly in the Mining and Quarrying and the Trade, Hotels, Restaurants, Transport and Communications sectors, expect to increase output as trade conditions improve (Charts 1 and 3).

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



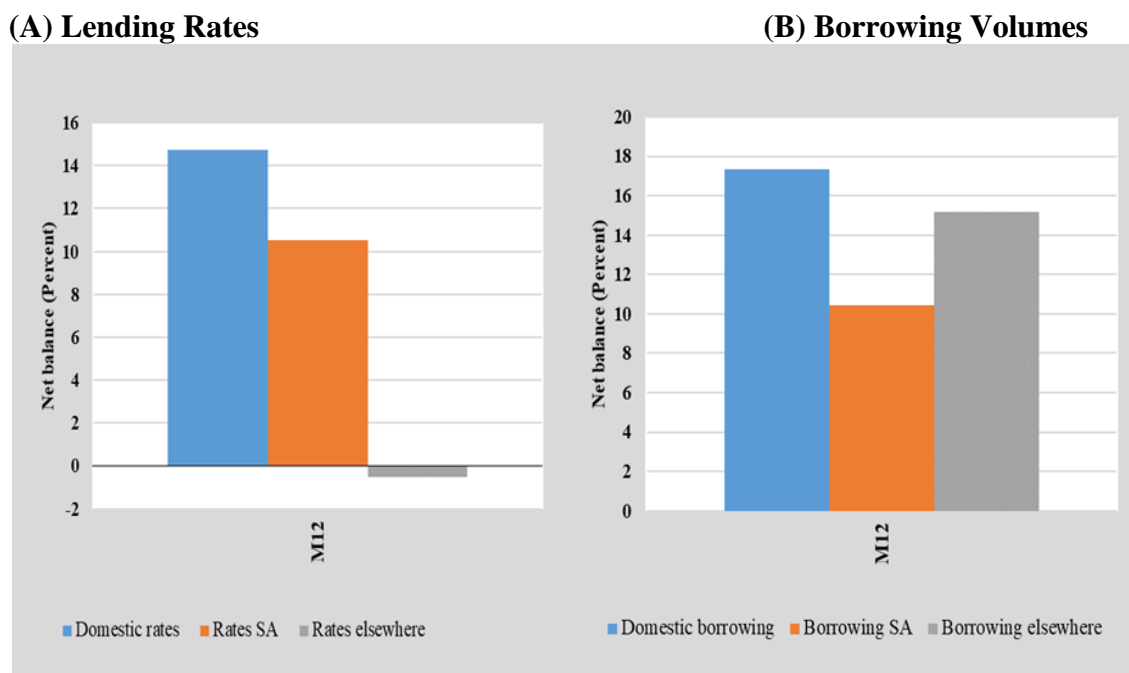
Source: Bank of Botswana

4. Expected Lending Rates and Volume of Borrowing

Lending rates in the domestic and South African markets are expected to increase in the year to June 2022 (M12)

- 4.1 Firms expect borrowing costs to increase in the domestic and South African markets in the year to June 2022 while decreasing in foreign markets other than South Africa (elsewhere²).
- 4.2 Regarding borrowing volumes, firms expect an increase in credit across all markets in the twelve-month period to June 2022, consistent with the expected improvements in business conditions and the reduction in lending rates in foreign markets other than South Africa (Chart 4). The expected increase in borrowing from the domestic and South African markets in spite of the expected rise in borrowing costs, could indicate relative easier access to domestic and South African credit.

Chart 4: Lending Rates and Borrowing Volumes

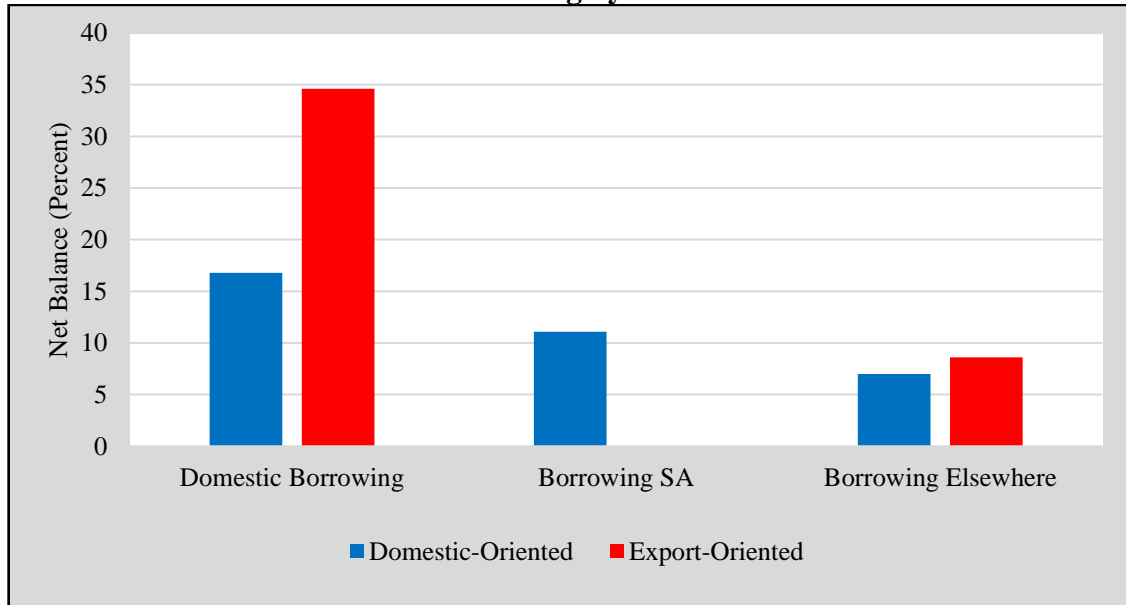


Source: Bank of Botswana

- 4.3 Both domestic and export market-oriented firms perceived overall access to credit to be tight in the year to June 2022. In general, all firms irrespective of the target market, prefer to borrow domestically. However, some export market-oriented firms prefer to borrow more from foreign markets (elsewhere) other than in South Africa (Chart 5).

² 'Elsewhere' refers to any market other than Botswana and South Africa

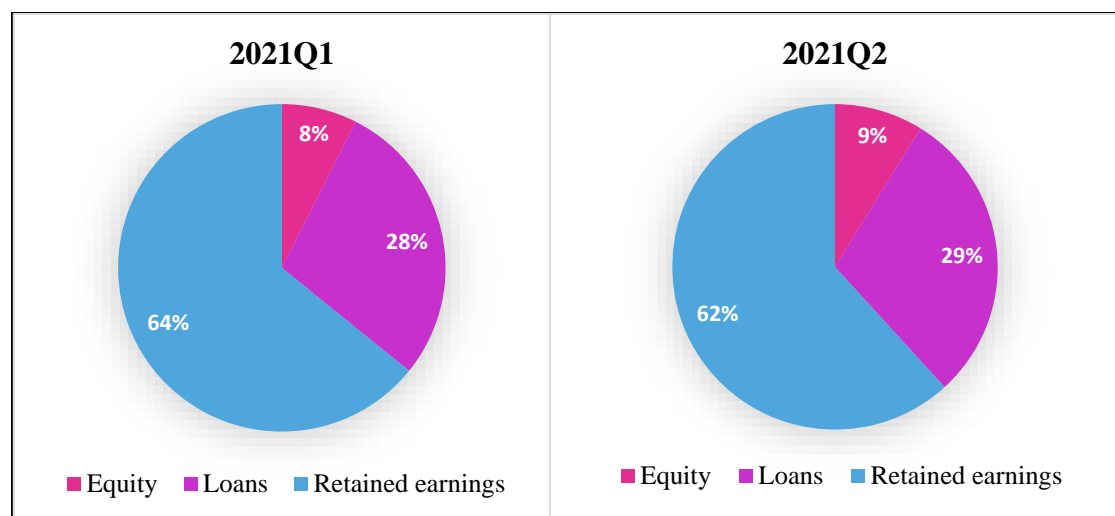
Chart 5: Preferred Market for Borrowing by Firms



Source: Bank of Botswana

4.4 A significant number (approximately 52 percent) of the surveyed firms stated that their decision on the source market for their funding was informed by accessibility, while 24 percent cited availability of required loan products. Meanwhile, 21 percent of the firms indicated that their decisions about credit acquisition were influenced by affordability of suitable credit facilities, while only 3 percent indicated that their decision was informed by a combination of factors (e.g., 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 and loans (Chart 6). Retained earnings as a source of finance was more prevalent among the Manufacturing; Trade, Hotels, Restaurants, Transport and Communications; and Mining and Quarrying sectors. In contrast, most of the firms in the Finance and Business Services sector planned to fund their businesses through loans.

Chart 6: Sources of Financing



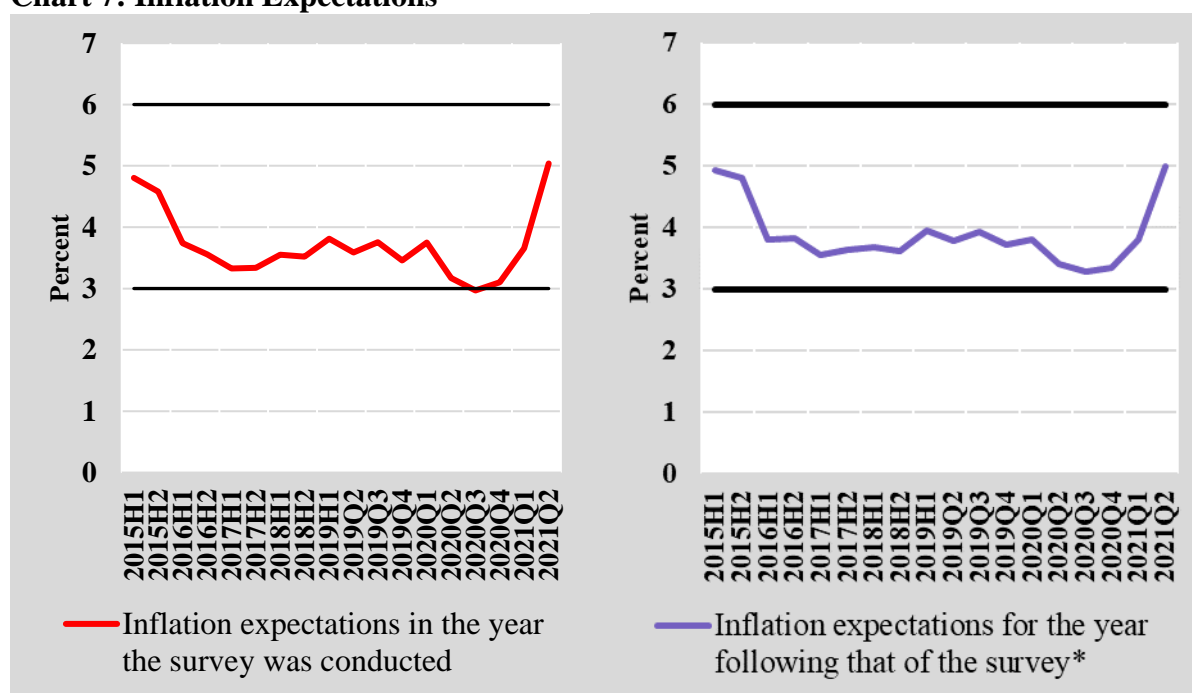
Source: Bank of Botswana

5. Price Developments and Inflation

Cost pressures expected to increase in the third quarter of 2021

- 4.1 Overall, firms expect cost pressures to continue rising into the third quarter of 2021, mainly attributable to the expected increase in all input costs, due to second round effects of the upward adjustment in VAT and fuel levy as well as increase in electricity tariffs in April 2021. Firms' expectations about domestic inflation rose in 2021 but remained within the Bank's inflation objective range of 3-6 percent (Chart 7). Firms' inflation expectations for both 2021 and 2022 averaged 5 percent, suggesting that inflation expectations are well anchored within the Bank's objective range.

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 2019 Q2, 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).

*For example, the quarterly inflation expectations made in 2020 are about annual inflation in 2021, while those made in 2021 are about annual inflation in 2022.

6. Factors Affecting Business Conditions

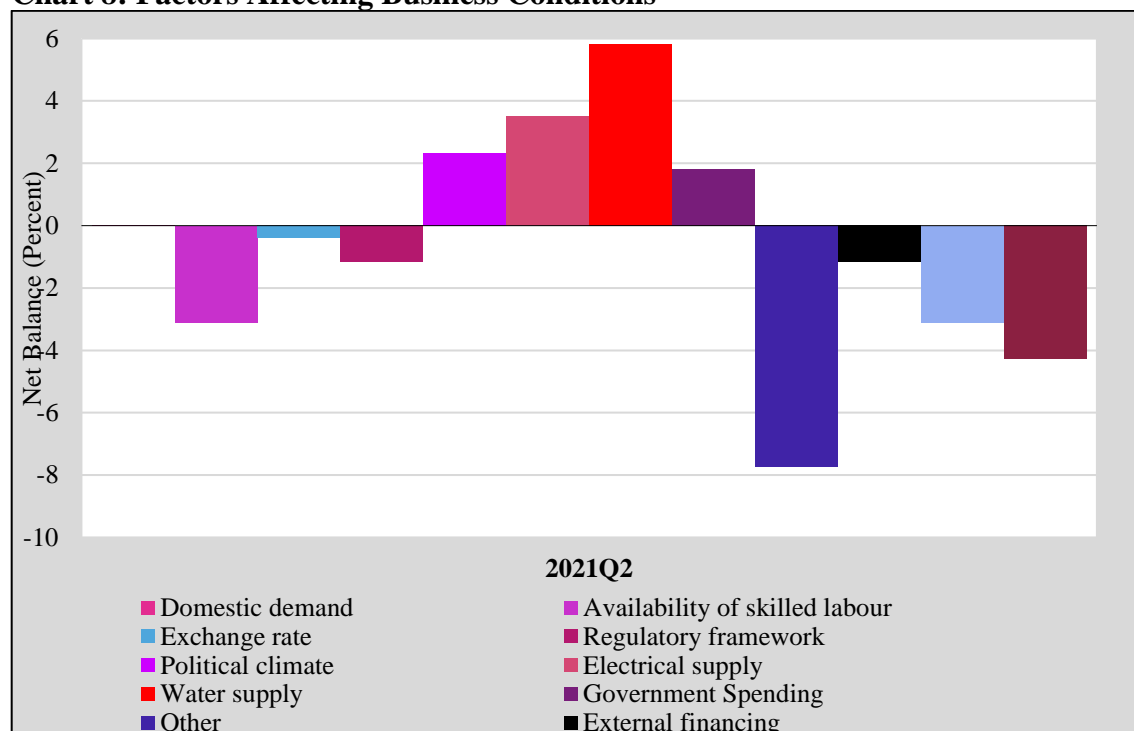
COVID-19 restrictions ('Other') perceived to be a major challenge to doing business

- 6.1 In general, firms, predominantly in the Trade, Hotels, Restaurants, Transport and Communications sectors, highlighted COVID-19 restrictions as the greatest challenge to their business operations in the second quarter of 2021 (Chart 8). Weak international demand was the second most commonly cited impediment to doing business, especially by firms in the Mining and Quarrying and Trade, Hotels, Restaurants, Transport and Communications sectors. The subdued international demand could be partly attributed to

the resurgence of new infections across the globe which perpetuates curtailment of international travel. Furthermore, shortage of raw materials was also considered a challenge to doing business, especially by firms in the manufacturing sector. Lastly, unavailability of skilled labour was also considered a challenge to doing business in Botswana, particularly by firms in the construction and mining sectors, reflecting reported difficulties experienced in recruiting foreign skilled labour.

- 6.2 On the other hand, water and electricity supply, favourable political climate and government spending were viewed as supportive factors to doing business in Botswana in the second quarter of 2021 (Chart 8).

Chart 8: Factors Affecting Business Conditions



Source: Bank of Botswana

7. Conclusion

- 7.1 Overall, firms were less pessimistic about business conditions in the second quarter of 2021 compared to the previous quarter. This is reflected in the anticipated lower contraction in profitability; imports of goods and services; and investment in plant and machinery, and vehicles and equipment in the current survey compared to the previous one. Firms anticipate improvement in business conditions in the third quarter of 2021 and the year to June 2022, in line with the anticipated recovery in global economic activity associated with relaxations in COVID-19 pandemic containment measures. Firms expect the economy to expand by 2.9 percent in 2021, while inflation is anticipated to average 5 percent in both 2021 and 2022.
- 7.2 The majority of the surveyed firms indicated that COVID-19 containment measures have negatively affected business operations in the current period. However, businesses anticipate to fully recover from the impact of the COVID-19 pandemic in a year from June 2021.