

# THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



DECEMBER 2020  
BANK OF BOTSWANA

## 1. Introduction

### Description of the Survey

- 1.1 The Bank's quarterly Business Expectations Survey (BES) collects information on the domestic business community's perceptions about the prevailing state of the economy and prospects. In the survey, businesses respond to a range of questions relating to, among others: the prevailing business climate; outlook for economic growth and inflation; and business performance over the survey horizon. Further, in a bid to ascertain the impact of the pandemic on the business community, some COVID-19 related questions have been included in the survey. The survey horizon 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 This Report presents results of the survey carried out in the fourth quarter of 2020<sup>1</sup> and, therefore, presents business expectations about the current period (Q4:2020), the first quarter of 2021 (Q1:2021); and the twelve-month period (M12) from January 2021 - December 2021 (Q1:2021-Q4:2021). Thus, the Survey was conducted during the period in which travel restrictions and social distancing requirements were in place as part of domestic measures aimed at containing the spread of the COVID-19 pandemic. However, the restrictions were less stringent compared to the second and third quarters of the year.
- 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<sup>2</sup>; and Finance and Business Services. The response rate for the current survey is 64 percent, 11 percentage points lower than in the September 2020 Survey. The lower response rate was mainly due to closure for the festive season by some firms during the time when the survey was ongoing as well as logistical challenges faced by some companies, arising from reduced staff complement necessitated by the COVID-19 containment measures.
- 1.4 The survey questions focus mainly on anticipated direction of change in selected indicators, i.e., whether conditions will 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 are consolidated into simple averages.

### Highlights of the Survey Results

- 1.5 The results suggest that firms were less pessimistic about economic activity in the fourth quarter of 2020 compared to the previous quarter (Chart 2) while access to credit was anticipated to be tight across all markets. Meanwhile, firms expect cost pressures to rise in the fourth quarter of 2020, mainly reflecting the anticipated increase in some input costs. In all the four surveys of 2020, firms expected inflation to be stable and within the Bank's medium-term objective range of 3-6 percent in 2020 and 2021.
- 1.6 Further, COVID-19 containment measures negatively affected business operations in the fourth quarter of 2020, with the most hard hit being in the Trade, Hotels, Restaurants, Transport and Communications; Finance and Business Services; Manufacturing; and the Construction sectors. In general, firms anticipate

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<sup>1</sup> The survey was, therefore, concluded before the new Covid-19 variant was discovered, towards the end of the fourth quarter of 2020.

<sup>2</sup> However, responses of the the Trade, Hotels and Restaurants, and Transport and Communications sectors are merged for ease of analysis since the two are interconnected.

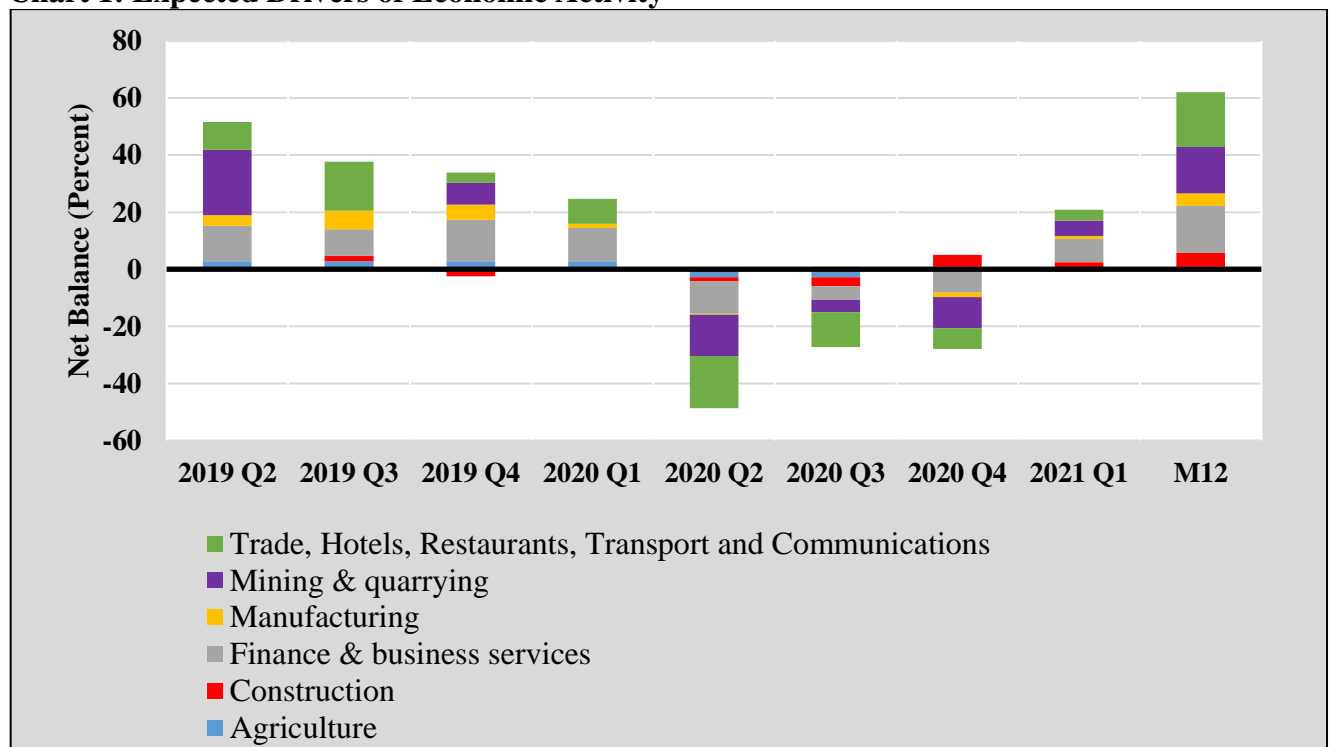
that it would take more than a year (from the current period/fourth quarter of 2020) for their businesses to recover from the impact of COVID-19. This, therefore, is in contrast to the projection by the Ministry of Finance and Economic Development (MFED), that the domestic economy will recover to a growth of 7.7 percent in 2021.

## 2. Economic Performance and Business Conditions

### Output is expected to decline in 2020

2.1 Firms expect overall output to contract by 1.3 percent in 2020, which is a deterioration from the stagnant (0 percent) growth predicted in the September 2020 survey and a less pessimistic view compared to the projected 8.9 percent contraction by the MFED. On quarterly basis, firms project GDP to have contracted by 0.4 percent in the fourth quarter of 2020, consistent with the decline in production; stock; sales; profitability; exports and imports of goods and services; and investment in buildings, vehicles and equipment, plant and machinery, and ‘other’ investments recorded in the survey. However, firms expect GDP to expand by 1.6 percent in the first quarter of 2021, consistent with the anticipated improvement in business conditions and the envisaged global economic recovery in 2021 (Chart 1), although threatened by the emergence of the new variant of COVID-19, which has already emerged in some countries including Botswana, and is considered more transmissible than the original strain.

**Chart 1: Expected Drivers of Economic Activity**

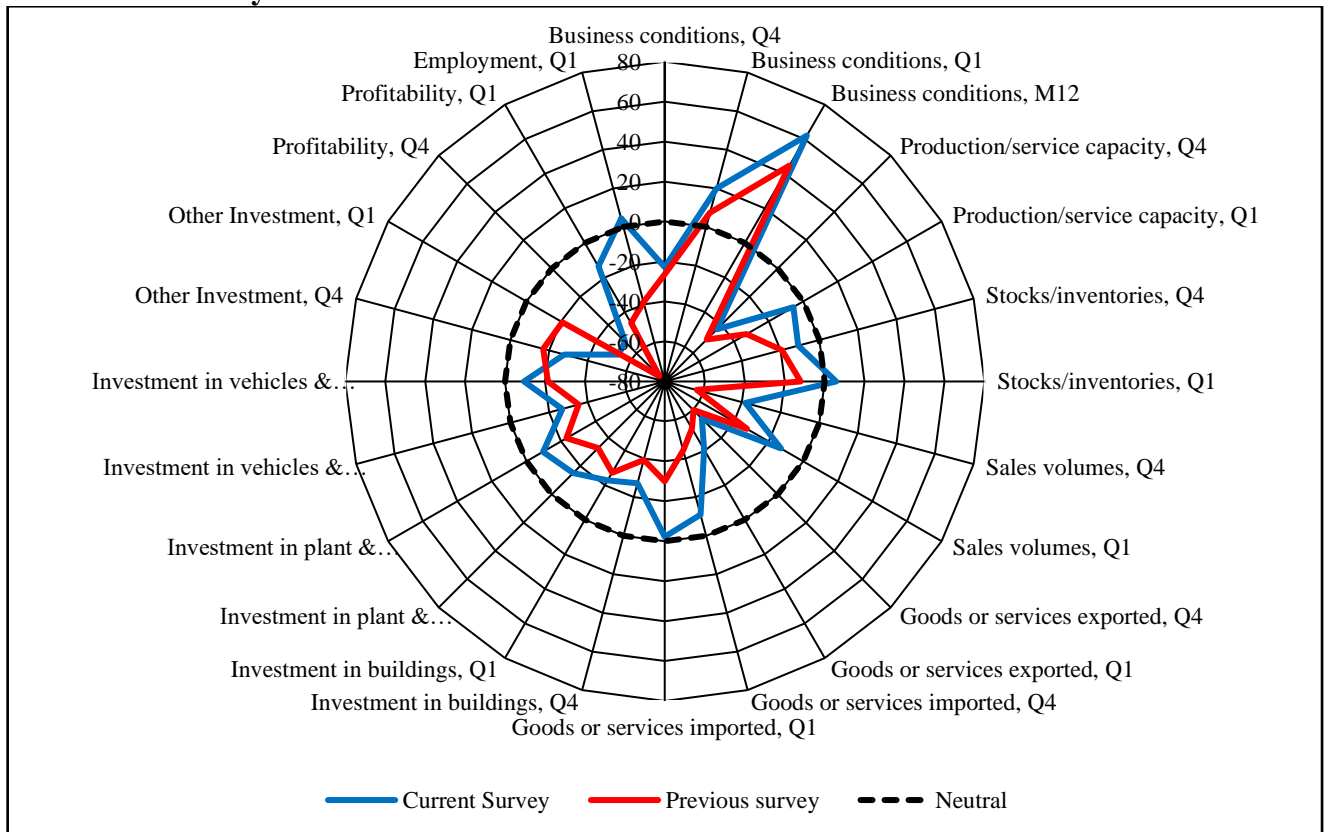


Note: The chart shows net balances on each sector’s expectations about economic performance from the second quarter of 2019 to the first quarter of 2021 and the 12 months period to December 2021. The net balances are weighted by each sector’s relative share in GDP. For example, for a sector with (P+N) 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, the Trade, Hotels, Restaurants, Transport and Communications sector was less pessimistic about economic growth prospects in the fourth quarter of 2020 compared to the previous quarter. This is consistent with the gradual easing of COVID-19 movement restrictions. The earlier restrictions had led to cancellation of travel and holiday bookings and closure of a number of tourism, accommodation and restaurants facilities. However, the Finance and Business Services sector, which expects unfavourable economic performance consistent with firms’ prediction of a decline in ‘other’ investment during the

fourth quarter of 2020, was more pessimistic compared to the third quarter. The Mining and Quarrying sector, which predominantly targets the export market, expected a decline in activity in the fourth quarter of 2020, in line with the unfavourable market conditions, especially with respect to the diamond industry, occasioned by, among others, weaker global demand for rough diamonds associated with the interruption of trade due to the COVID-19 pandemic containment measures. The sector is also more pessimistic compared to the third quarter. Firms across all sectors, save for the Agriculture sector, are optimistic about economic performance in the first quarter of 2021. Moreover, firms across all sectors are optimistic about economic recovery in the twelve-month period to December 2021, led by the Trade, Hotels, Restaurants, Transport and Communications sector. The perceived less sluggish economic performance in the current survey compared to the previous one was, until the resurgence of infections, associated with the continued gradual easing of COVID-19 travel restrictions and resumption of business operations (Chart 2).

**Chart 2: Summary of Economic Conditions**



**Notes:**

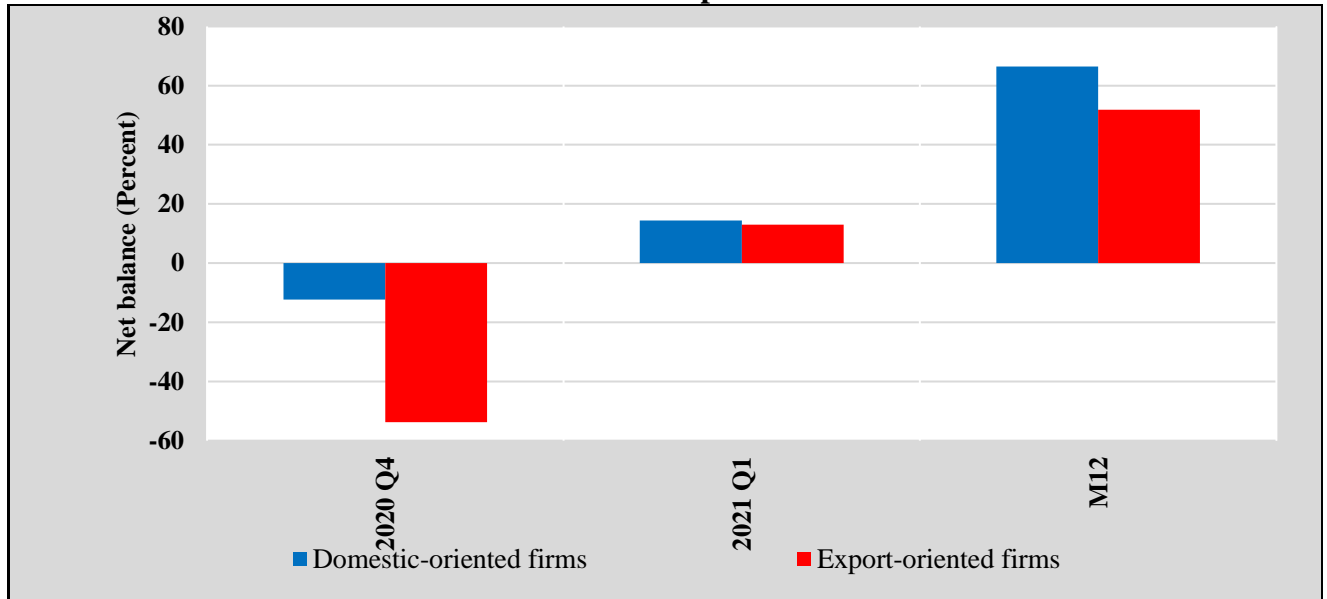
The chart summarises firms’ expectations about business conditions. The blue line represents the results of the December 2020 Survey, while the red line represents the results of the September 2020 survey. The black dashed line is the static position, representing unchanged expectations. The net balances 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: Q4 denotes perceptions about business conditions in the fourth quarter of 2020, Q1 represents expectations about business conditions for the first quarter of 2021, while M12 depicts the perceived business conditions for the twelve-month period from January 2021 to December 2021. Similarly, the red line denotes perceptions about business conditions as envisaged in the previous survey.

2.3 As shown in Chart 3, optimism among domestic market-oriented firms improves markedly in the first quarter of 2021 compared to the fourth quarter of 2020, in line with the projected improvements in economic prospects for 2021 compared to 2020. The level of optimism rises further in the twelve-month period to December 2021 (M12) consistent with the anticipated domestic economic recovery in that year. Confidence in the domestic market-oriented firms is mainly driven by firms in the Trade, Hotels, Restaurants, Transport and Communications; Finance and Business Services; and Mining and Quarrying sectors as diamond trade; retail sales; investment; and general economic performance are expected to

improve, going forward. Similarly, export-oriented firms are optimistic about business conditions in the first quarter of 2021 and in the whole of 2021. These firms are predominantly in the Mining and Quarrying and the Trade, Hotels, Restaurants, Transport and Communications sectors and they expect to increase output as trade conditions improve (Chart 1 and 3).

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



### 3. Expected Lending Rates and Volume of Borrowing

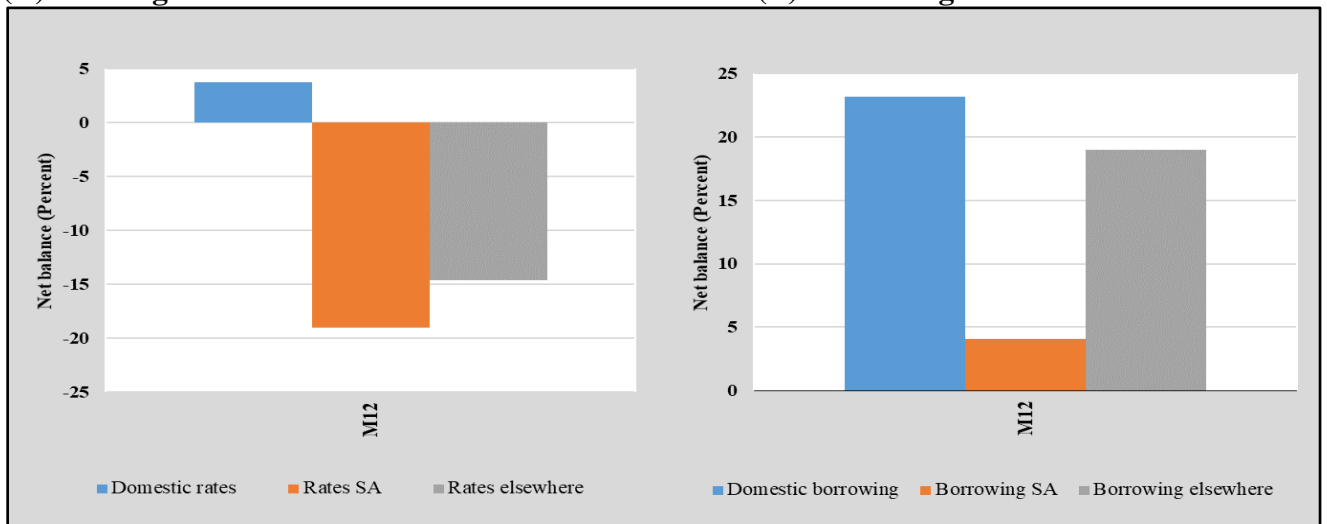
#### Lending rates are expected to increase in the domestic market in 2021

3.1 In general, firms expect the cost of credit (lending rates) to increase in the domestic market in 2021 despite the October 2020 policy rate cut by the Bank. However, businesses expect the cost of credit to decrease in South Africa and elsewhere, mainly due to the need for affordable credit to stimulate economic activity in the wake of the adverse impact of the COVID-19 pandemic. Regarding borrowing volumes, firms broadly expect an increase in credit across all markets in 2021, consistent with improvement in business conditions and the expected decrease in lending rates in external markets (Chart 4).

**Chart 4: Lending Rates and Borrowing Volumes**

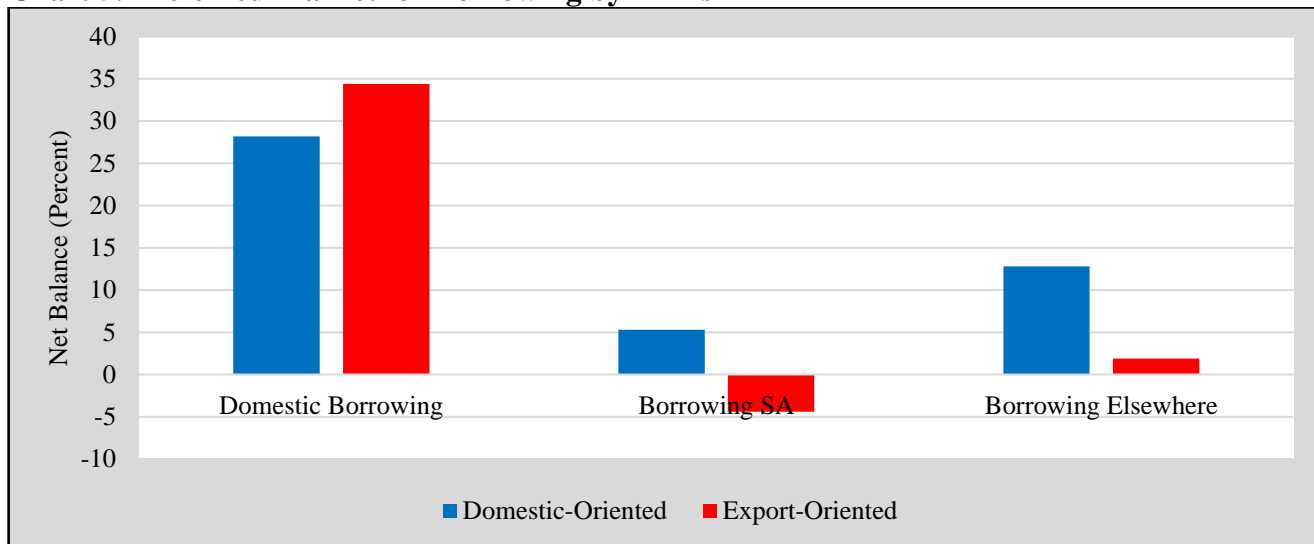
#### (A) Lending Rates

#### (B) Borrowing Volumes



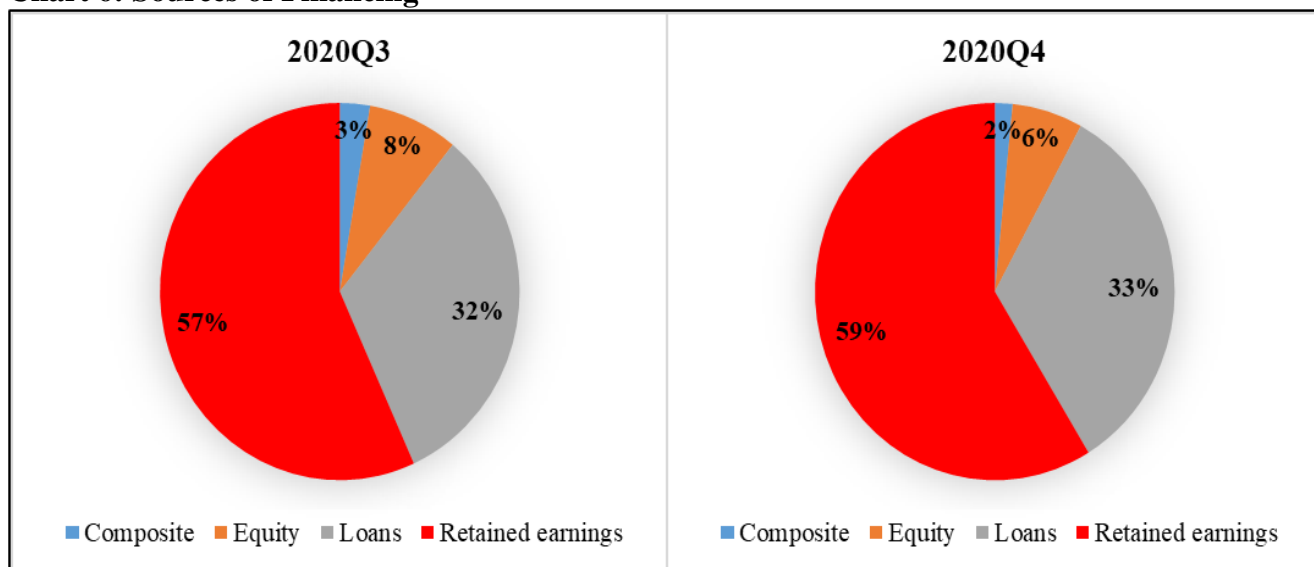
3.2 Both domestic and export market oriented firms perceived overall access to credit to be tight in the fourth quarter of 2020, even though export market oriented firms expected interest rates, one of the determinants of credit accessibility, to be lower than in the previous quarter. All firms which predominantly target the domestic market prefer to borrow from all markets in 2020, with more preference given to the domestic market. Meanwhile, export market-oriented firms prefer to borrow mainly from the domestic market and to a much lower degree from elsewhere (Chart 5).

**Chart 5: Preferred Market for Borrowing by Firms**



3.3 A substantial number (about 45 percent) of the surveyed firms stated that their decision on which market to borrow from was informed by accessibility, while 29 percent cited availability of required loan products. Meanwhile, 23 percent of the firms indicated that their decisions on acquisition of credit were influenced by affordability of suitable credit facilities, while 3 percent indicated that their decision was informed by a combination of more than one factor (for example, accessibility and availability or affordability and availability). As in the previous survey, most firms preferred 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 Trade, Hotels, Restaurants, Transport and Communications; Manufacturing; Water and Electricity; and Mining and Quarrying sectors. Conversely, most of the firms in the Finance and Business services sector planned to fund their businesses through loans.

**Chart 6: Sources of Financing**



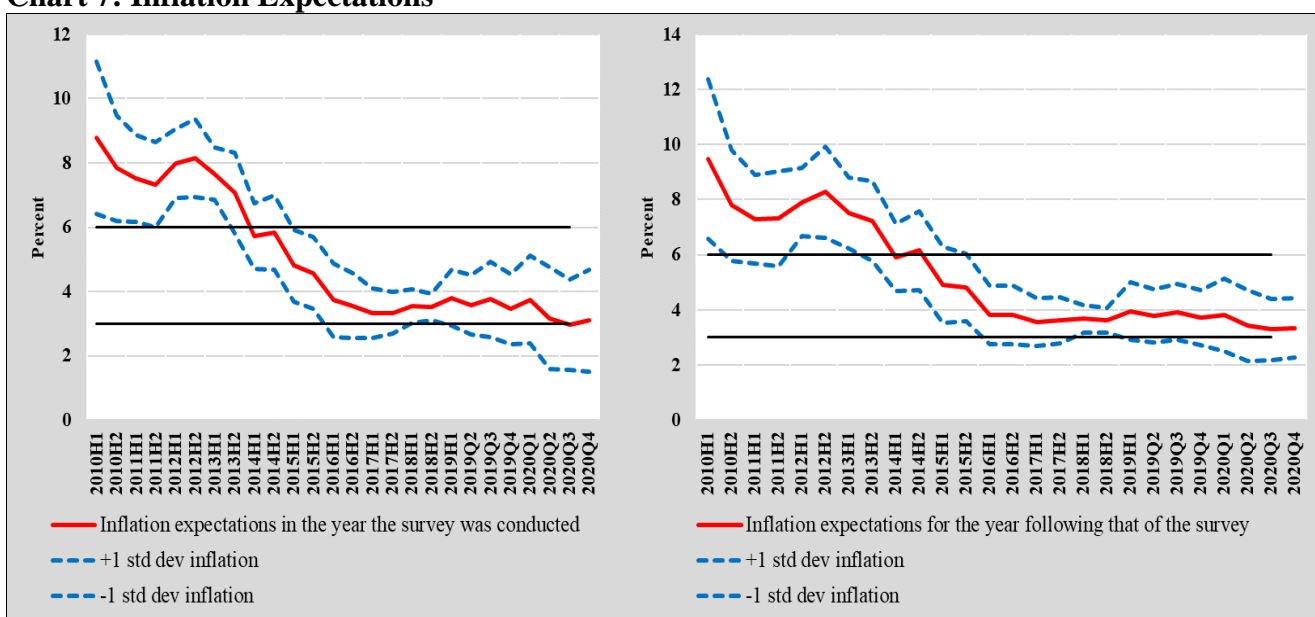
Note: Composite refers to preference for a combination of more than one source of financing (e.g. retained earnings and loans or equity and loans).

## 4. Price Developments and Inflation

### Cost pressures expected to increase in the first quarter of 2021

- 4.1 Overall, firms expect cost pressures to rise substantially in the first quarter of 2021, mainly attributable to the expected increase in some input costs (materials, rent, wages and transport costs), in line with the recent increase in inflation, following the upward adjustment in domestic fuel prices and postal services tariffs effected in October 2020. Firms' expectations about domestic inflation have generally been on a downward trend since 2013, and within the Bank's inflation objective range of 3 - 6 percent since 2014 (Chart 7). Furthermore, uncertainty about future inflation has generally declined as reflected by the narrowing standard deviation (std dev) from the average expected inflation, despite the noticeable divergence from 2019 to 2020Q4. However, the divergence is still lower compared to the period around 2010. Firms' inflation expectations for 2020 and 2021 averaged 3.1 percent and 3.3 percent respectively, suggesting that inflation expectations are well anchored within the Bank's objective range.

**Chart 7: Inflation Expectations**



Note: The chart shows the average of inflation expectations across different surveys, as well as the standard deviation for the inflation expectations. 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).

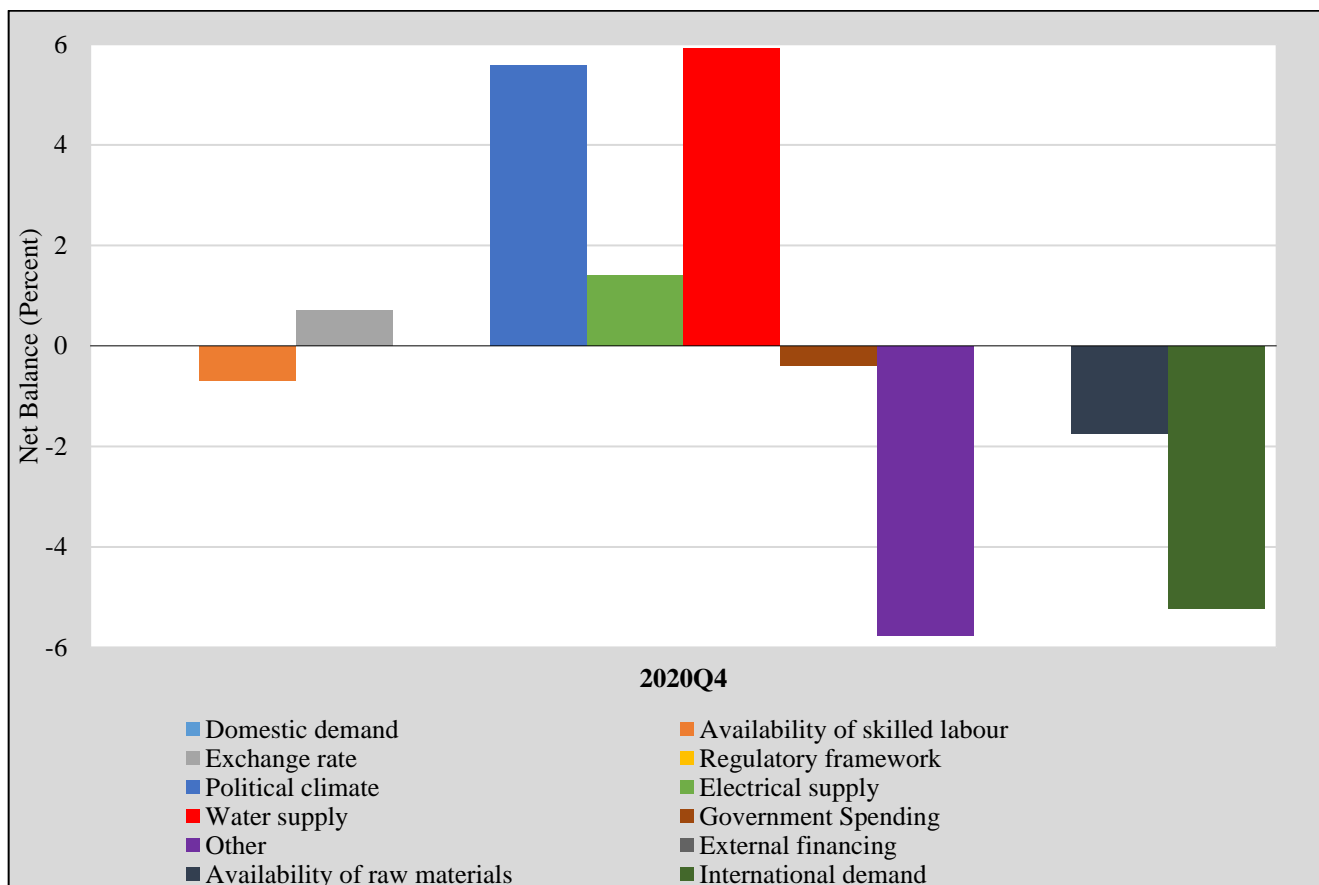
## 5. Factors Affecting Business Conditions

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

- 5.1 In general, firms, predominantly in the Trade, Hotels, Restaurants, Transport and Communications sector, specified COVID-19 restrictions as the greatest challenge to their business operations in the fourth quarter of 2020 (Chart 8). Weak international demand was the second most commonly cited impediment to doing business, especially by firms in the the mining and quarrying and trade, hotels, restaurants, transport and communications sectors. The subdued international demand could be partly attributed to international travel restrictions (which were only partly eased towards the end of the year). Furthermore, shortage of raw materials was also considered a challenge to doing business, especially in the manufacturing sector. Lastly, unavailability of skilled labour was also cited as a challenge to doing business in Botswana, particularly by firms in the construction sector, reflecting reported difficulties experienced in recruiting foreign skilled labour.

5.2 On the positive side, the local political climate, water and electricity supply were viewed as being the most supportive factors to doing business in Botswana in the fourth quarter of 2020 (Chart 8). This reflects improvement in water and electricity supply, which had previously been a serious challenge.

**Chart 8: Factors Affecting Business Conditions**



## 6. Conclusion

6.1 Overall, firms were less pessimistic about business conditions in the fourth quarter of 2020 compared to the previous quarter. This reflects the anticipated lower contraction in production; stock; sales; profitability; exports and imports of goods and services; and investment in the current survey compared to the previous one. The expected relative improvement in business conditions is in line with the anticipated recovery in global economic activity associated with the gradual easing of COVID-19 pandemic containment measures. Firms expected the economy to have declined by 1.3 percent in 2020, while it was anticipated that inflation would average 3.1 percent and 3.3 percent in 2020 and 2021, respectively.

6.2 The majority of the surveyed firms indicated that COVID-19 containment measures have negatively affected business operations in the current period and expect . However, businesses anticipate to fully recover from the impact of the pandemic in more than a year from December 2020.