THE QUARTERLY BUSINESS EXPECTATIONS SURVEY

MARCH 2022

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 in the survey horizon. 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 March 2022 BES Report presents business expectations about the current period (Q1:2022), the second quarter of 2022 (Q2:2022); and the twelve-month period (M12) from April 2022 - March 2023 (Q2:2022-Q1:2023). Thus, the survey was conducted during the period in which some of the COVID-19 regulations and protocols, were still in place. However, the survey horizon covers the period when the restrictions were less stringent compared to 2020 and 2021, with international travel allowed with proof of full vaccination or a negative COVID-19 Polymerase Chain Reaction (PCR) test performed within 72 hours prior to travel.

1.3 The BES samples 100 businesses from thirteen 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. Some sectors, for example, Construction and Real Estate; Finance, Insurance and Pension Funding; Professional, Scientific and Technical Activities; and Administrative and Support Services were merged for ease of analysis since they are interconnected. The response rate for the current survey is 55 percent, 5 percentage points higher than in the December 2021 Survey. The slight improvement in the response rate mainly reflects the easing of logistical challenges occasioned by the COVID-19 containment measures, which has resulted in most companies relaxing or terminating the working from home and shift work arrangements, thus raising the number of personnel working from the business premises.

1.4 In July 2021, Statistics Botswana published a new series of the national gross domestic product (GDP) rebased from 2006 to 2016. The rebased series introduced changes to some sectoral groupings, increasing their number from 10 to 18. As a result, the sectoral weights used for deriving net balances for the September 2021 to the current period differ from the surveys done prior to the third quarter of 2021. This, in turn, has affected the magnitude of the net balances (as the net balances are weighted by each sector's relative share in GDP). A net balance is a measure obtained by summing the positive and negative responses to each question/element by firms belonging to the same sector.

1.5 The survey questions are mainly focused on the anticipated direction of change in selected indicators, thus whether the indicator is expected to improve, worsen or remain constant. The results are then consolidated into a net balance. Thus, by design, the survey responses are predominantly qualitative, but 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 into simple averages.

Highlights of the Survey Results

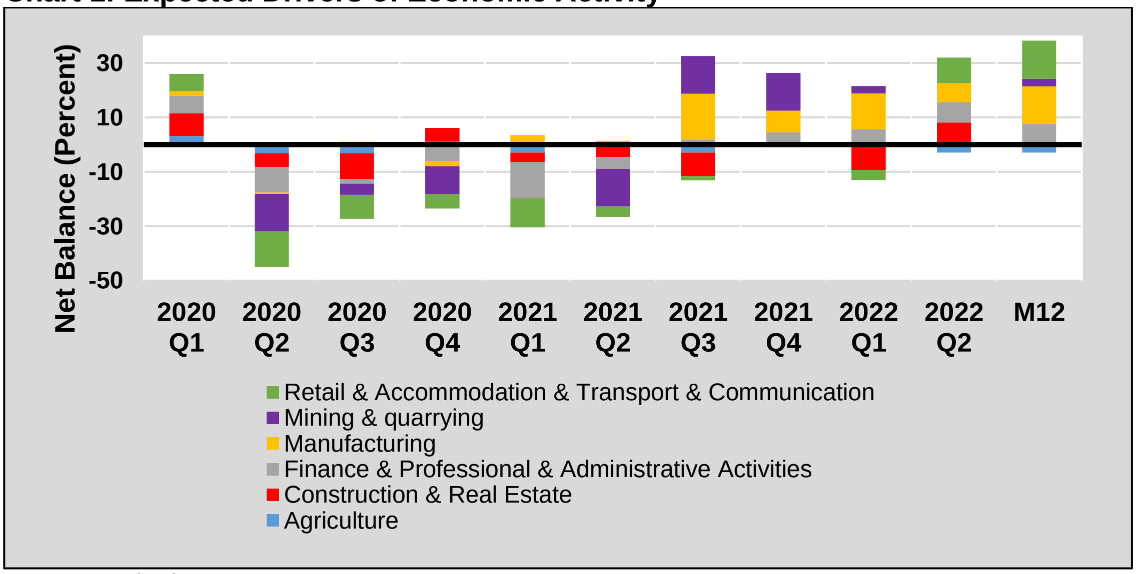
1.6 The results suggest that firms are less optimistic about business conditions than they were in the previous survey. Overall, businesses expect lower sales, inventories and profit, as well as reduced capacity utilisation, compared to the December 2021 survey. Furthermore, firms anticipate tight access to credit across all markets. Firms expect cost pressures to be higher in the second quarter of 2022 than in the first quarter of 2022, mainly reflecting the anticipated upward adjustment in fuel prices due to challenges arising from the Ukraine/Russia war. The decline in business confidence among both domestic market-oriented and export-oriented firms is expected to have a negative impact on the domestic economic performance. Meanwhile, firms expect inflation to remain above the upper bound of the Bank's 3 - 6 percent objective range in 2022.

2. Economic Performance and Business Conditions

Output is expected to increase in 2022

2.1 Firms expect overall output to expand by 4.3 percent in 2022, which is in line with the projection of 4 percent by the Ministry of Finance and Economic Development and 4.7 percent by the International Monetary Fund for the same period. The three expected rates of growth align well with the envisaged global economic growth recovery in 2022. On quarterly basis, firms expect GDP to increase by 3.2 percent in March and June 2022. Growth expectations for the first half of 2022 are in line with the anticipated improvement in performance of sectors such as Mining and Quarrying; Manufacturing; Finance and Professional and Administrative Activities; as well as Retail and Accommodation and Transport and Communications (2022 Q2) (Chart 1).

Chart 1: Expected Drivers of Economic Activity



Source: Bank of Botswana

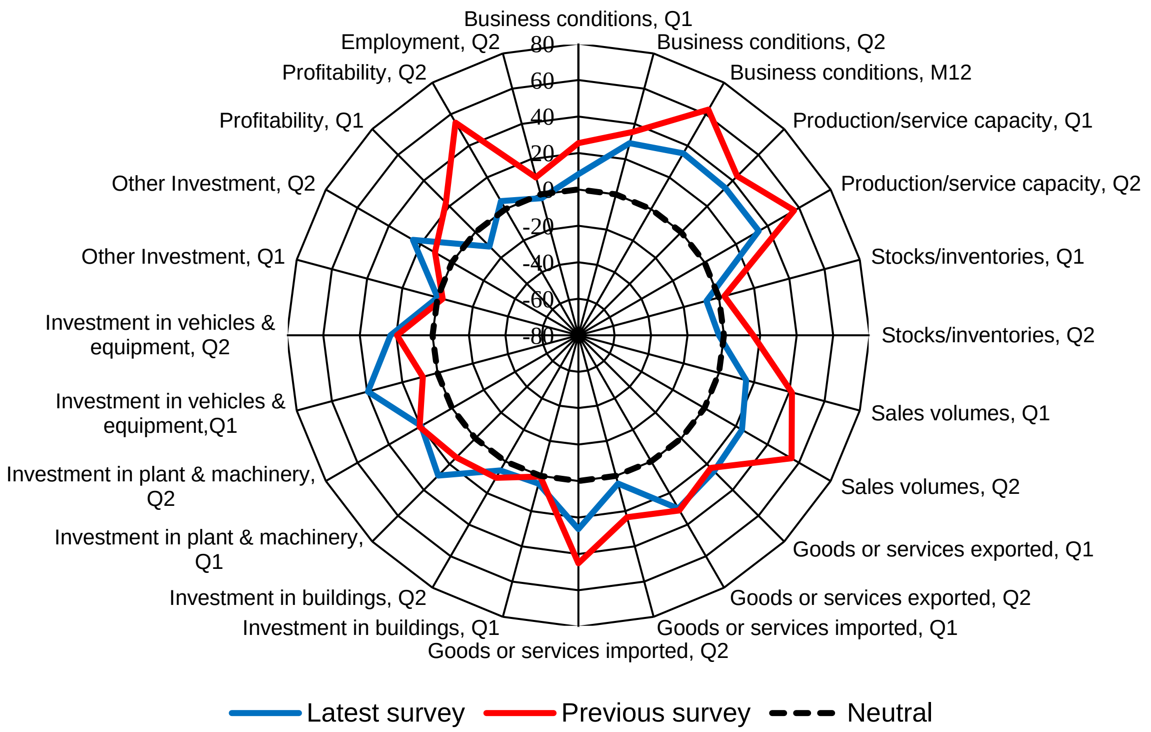
Note: The chart shows net balances on each sector's economic performance expectations for the first quarter of 2020, the second quarter of 2022 and the 12-month period to March 2023. The net balances are weighted by each sector's relative share in GDP. For example, for a sector with (P+N) members in the sample, where 'P' indicates positive perceptions and 'N' 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].

2.2 Notably, firms in the Construction and Real Estate and Retail, Accommodation, Transport and Communications sectors were pessimistic about economic growth prospects in the first quarter of 2022, but are optimistic about the second quarter of

2022, possibly supported by the prevailing accommodative monetary conditions and implementation of the Economic Recovery and Transformation Plan (ERTP), among others. However, the Agriculture sector anticipates a weaker overall economic performance in the second quarter of 2022, than in the previous one.

2.3 Firms in all sectors, except Agriculture; and Construction and Real Estate (which is neutral) are optimistic about economic recovery in the year to March 2023, led by the Manufacturing; Retail and Accommodation and Transport and Communications; Finance and Professional and Administrative Activities sectors; and Mining and Quarrying. However, the perceived improvement in economic performance in the current survey (Chart 2) is less than that in the previous survey, as reflected by the position of the blue line (Current survey), which is mostly inside the red line (Previous survey). The reduced level of optimism in the current survey is reflected by the anticipated deceleration in production; inventories; sales; profitability; and imports of goods and services, mainly due to the increase in cost pressures arising from the geopolitical crisis in Eastern Europe and second round effects of the COVID-19 pandemic.

Chart 2: Summary of Economic Conditions



Source: Bank of Botswana

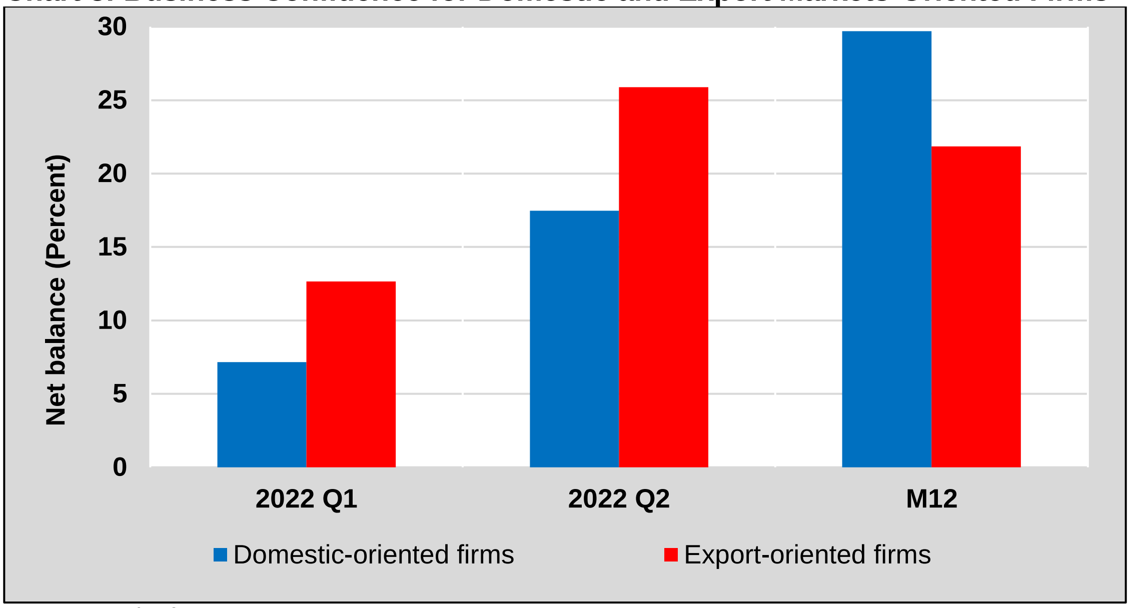
Notes: The chart summarises firms' expectations about business conditions. The blue line represents the results of the March 2022 Survey, while the red line represents the results of the December 2021 Survey. The black dashed line is the static position, representing unchanged expectations. The net balances 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: Q1 denotes perceptions about business conditions in the first quarter of 2022, Q2 represents expectations about business conditions for the second quarter of 2022, while M12 depicts the perceived business conditions for the twelve-month period from April 2022 to March 2023. The red line denotes perceptions about business conditions as envisaged in the previous survey.

2.4 Chart 3 shows that optimism among domestic market-oriented firms improves markedly in the second quarter of 2022 compared to the first quarter. The level of optimism improves further in the twelve-month period to March 2023 (M12), consistent with the anticipated continued domestic economic recovery and accommodative monetary conditions, going forward. Confidence in the domestic market-oriented firms is mainly driven by firms in the Manufacturing; Finance and Professional and Administrative Activities; and Retail and Accommodation and Transport and Communications sectors.

2.5 Meanwhile, export oriented firms are even more optimistic about business conditions in the second quarter of 2022 compared to the first quarter of 2022. However, their positive outlook on business conditions declines in the 12-month period to March 2023 but remains higher than in the first quarter of 2022.

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



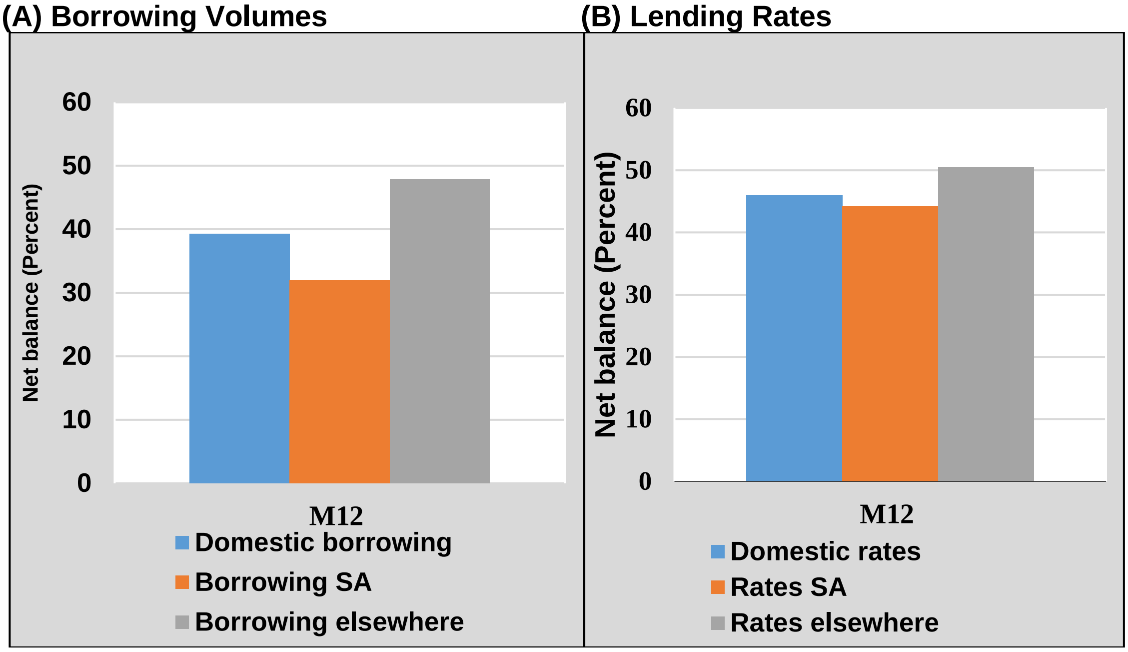
Source: Bank of Botswana

3. Lending Rates and Volume of Borrowing

Lending rates and borrowing volumes across all markets are expected to increase in the year to March 2023 (M12)

3.1 Firms expect borrowing costs to increase in all markets in the year to March 2023. Regarding borrowing volumes, firms expect to increase their stock of loans across all markets in the 12-month period to March 2023 (Chart 4) in order to finance increased operations as the economy continues to recover.

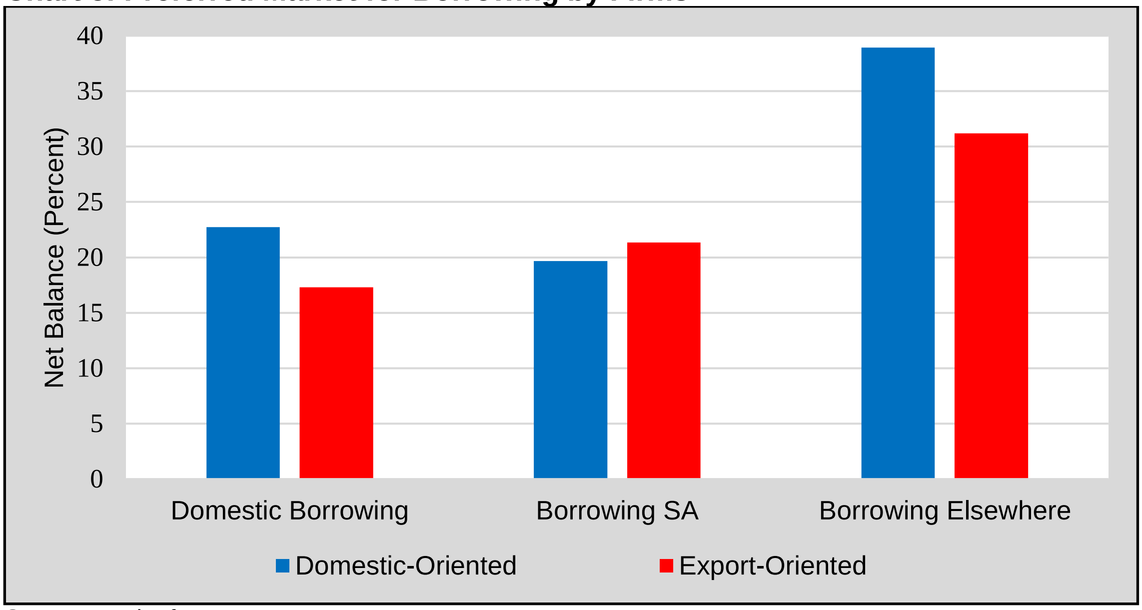
Chart 4: Borrowing Volumes and Lending Rates



Source: Bank of Botswana

3.2 Both domestic- and export market oriented firms mainly prefer to borrow from markets other than the domestic one and South Africa; thus they prefer to borrow from elsewhere (Chart 5).

Chart 5: Preferred Market for Borrowing by Firms

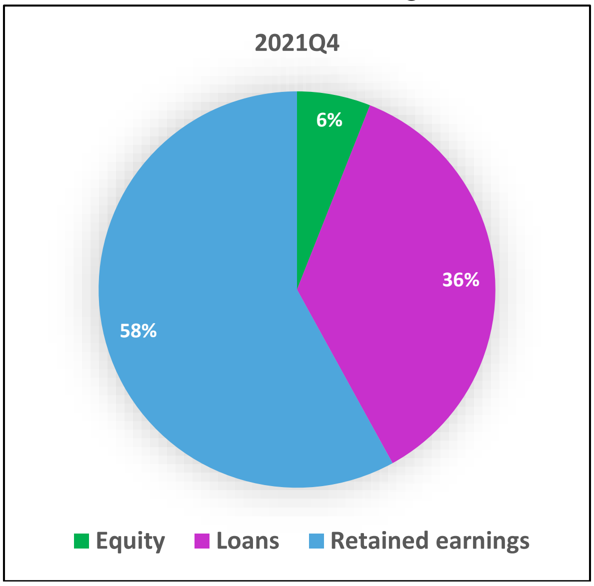


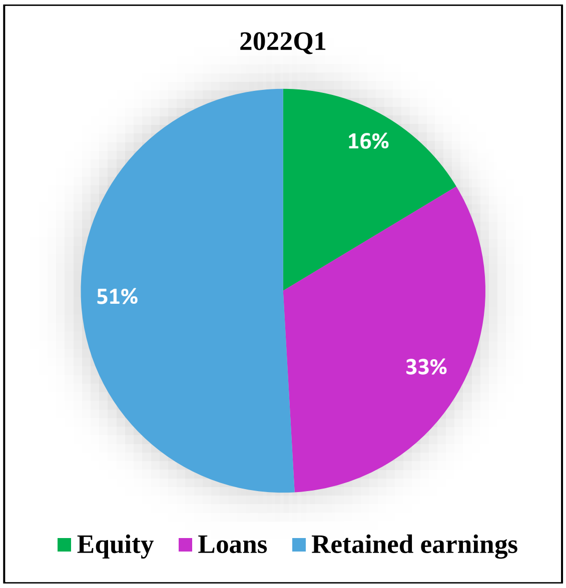
Source: Bank of Botswana

3.3 A significant number (approximately 62 percent) of the surveyed firms indicated that their source of funding market was predicated on accessibility, and 26 percent cited availability of required loan products. Meanwhile, 13 percent of the firms indicated that their decisions on acquiring credit were influenced by affordability of suitable credit facilities. As in the previous survey, most firms prefer to finance their business operations mainly from retained earnings, followed by loans and, lastly, equity (Chart 6). Retained earnings as a source of financing was prevalent among the

Manufacturing; Retail and Accommodation and Transport and Communications; and Mining and Quarrying sectors. Meanwhile, most of the firms in the Finance and Professional and Administrative sector preferred loans as a funding source.

Chart 6: Sources of Financing





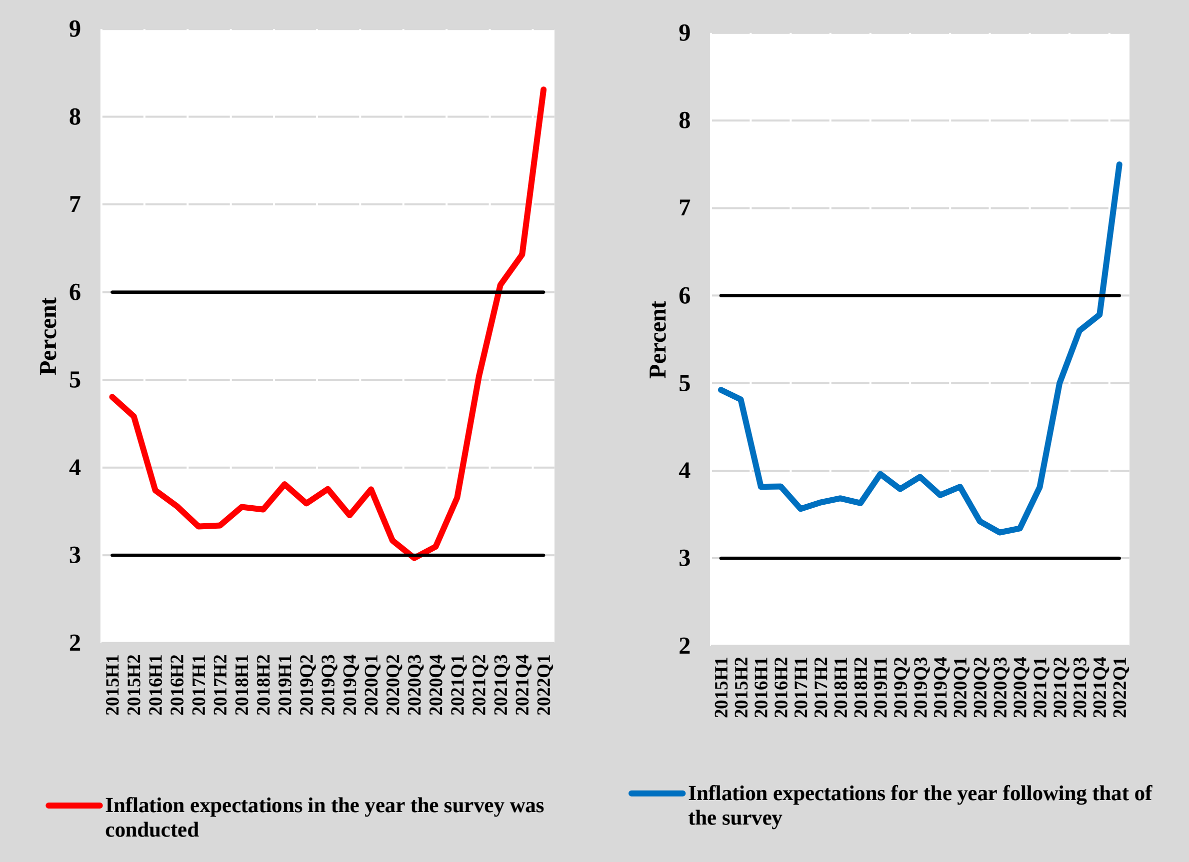
Source: Bank of Botswana

4. Price Developments and Inflation

Cost pressures expected to increase in the first quarter of 2022

4.1 Firms expect cost pressures to continue rising in the first quarter of 2022, mainly attributable to the increase in input costs, due to fuel price increases effected on December 2021 and reflected in the January 2022 inflation. Firms' expectations about domestic inflation surpassed the upper bound of the Bank's 3 – 6 percent objective range (Chart 7). Businesses expect inflation to average 8.3 percent in 2022 and 7.5 percent in 2023.

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). In the case of inflation expectations for the year following that of the survey, the quarterly inflation expectations made in 2021 are about annual inflation in 2022, while those made in 2022 are about annual inflation in 2023.

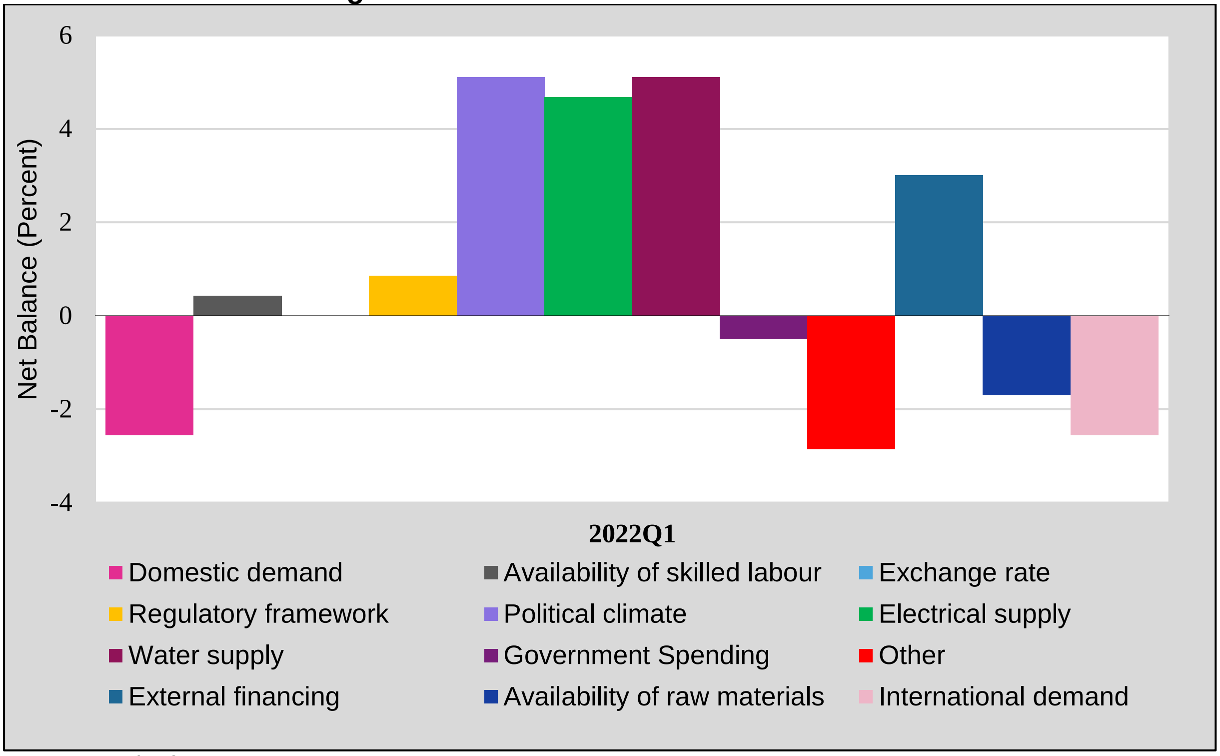
5. Factors Affecting Business Conditions in the First Quarter of 2022

Cost pressures expected to increase in the first quarter of 2022

5.1 Domestic and international demand were perceived as major challenges to doing business (Chart 8). The other most commonly cited impediment to operations was shortage of raw materials.

5.2 Favourable political climate; adequate water and electricity supply; availability of external financing; effective regulatory framework and availability of skilled labour were viewed as supportive factors to doing business in Botswana in the first quarter of 2022 (Chart 8).

Chart 8: Factors Affecting Business Conditions



Source: Bank of Botswana

6. Conclusion

6.1 Overall, firms were optimistic about business conditions, in the first quarter although the level of optimism was less than that in the survey conducted during the last quarter of 2021. The reduced level of optimism in the current survey is reflected by the anticipated deceleration in production; inventories; sales; profitability; and imports of goods and services, mainly due to the increase in cost pressures arising from geopolitical crisis in Eastern Europe and second round effects of the COVID-19 pandemic. Firms anticipate improvement in business conditions in the second quarter of 2022 and the twelve-month period to March 2023. Firms expect the economy to expand by 4.3 percent in 2022, while inflation expectations are above the Bank’s objective range of 3-6 percent.