

THE QUARTERLY BUSINESS EXPECTATIONS SURVEY



SEPTEMBER 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 third quarter of 2020, and therefore, presents business expectations about the current period (Q3:2020), the fourth quarter of 2020 (Q4:2020); and the twelve-month period (M12) from October 2020 - September 2021 (Q4:2020-Q3:2021). Thus, the Survey was conducted during the period in which the ongoing 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 second quarter BES.
- 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 75 percent, 2 percentage points higher than the response rate in the June 2020 Survey.
- 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, and provide valuable information to facilitate analysis and inform policy decisions. However, responses to questions seeking to determine the impact of COVID-19 on businesses, as well as those 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 are less pessimistic about economic activity in the third quarter of 2020 compared to the previous quarter (Chart 2). 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 cost of transport. Firms also expect inflation to remain 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 have negatively affected business operations in the third quarter of 2020. The most affected firms are largely in the trade, hotels, restaurants, transport and communications¹; mining and quarrying; finance and business services, and the manufacturing sectors. In general, firms anticipate that it will take more than a year, from September 2020, for their businesses to recover from the impact of COVID-19.

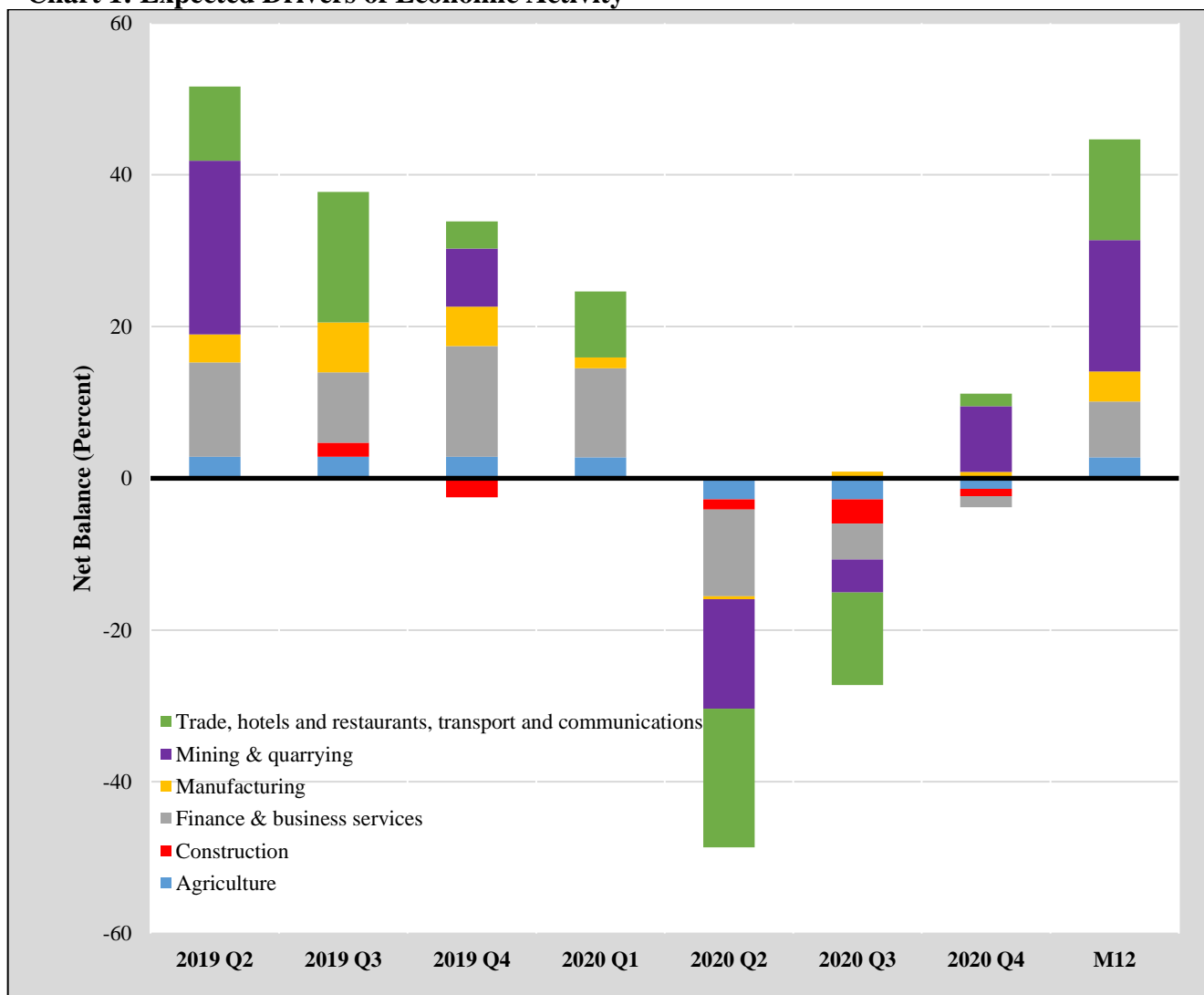
¹ The Trade, Hotels and Restaurants, and Transport and Communications sectors are merged for ease of analysis since the two are interconnected.

2. Economic Performance and Business Conditions

Output is expected to be stagnant in 2020

- 2.1 Firms expect output to be stagnant (zero growth) in 2020, which is an improvement over the 0.2 percent contraction predicted in the June 2020 survey and a more optimistic view compared to the projected 8.9 percent contraction by Ministry of Finance and Economic Development. On quarterly basis, firms expect GDP to contract in the third quarter of 2020, consistent with the anticipated decline in production; sales; profitability; exports and imports of goods and services; and investment in buildings, vehicles and equipment, plant and machinery, and ‘other’ investments.
- 2.2 Based on firms’ assessment of business conditions, the economy is expected to contract by 12.4 percent in the third quarter of 2020, compared to a growth of 3.1 percent and a contraction of 24 percent reported by Statistics Botswana for the third quarter of 2019 and the second quarter of 2020, respectively. The expected weak performance in the third quarter of 2020 is mainly influenced by the perceptions of lower output growth in the trade, hotels, restaurants, transport and communications; mining and quarrying; as well as the finance and business services sectors between the second and third quarters of 2020 (Chart1).

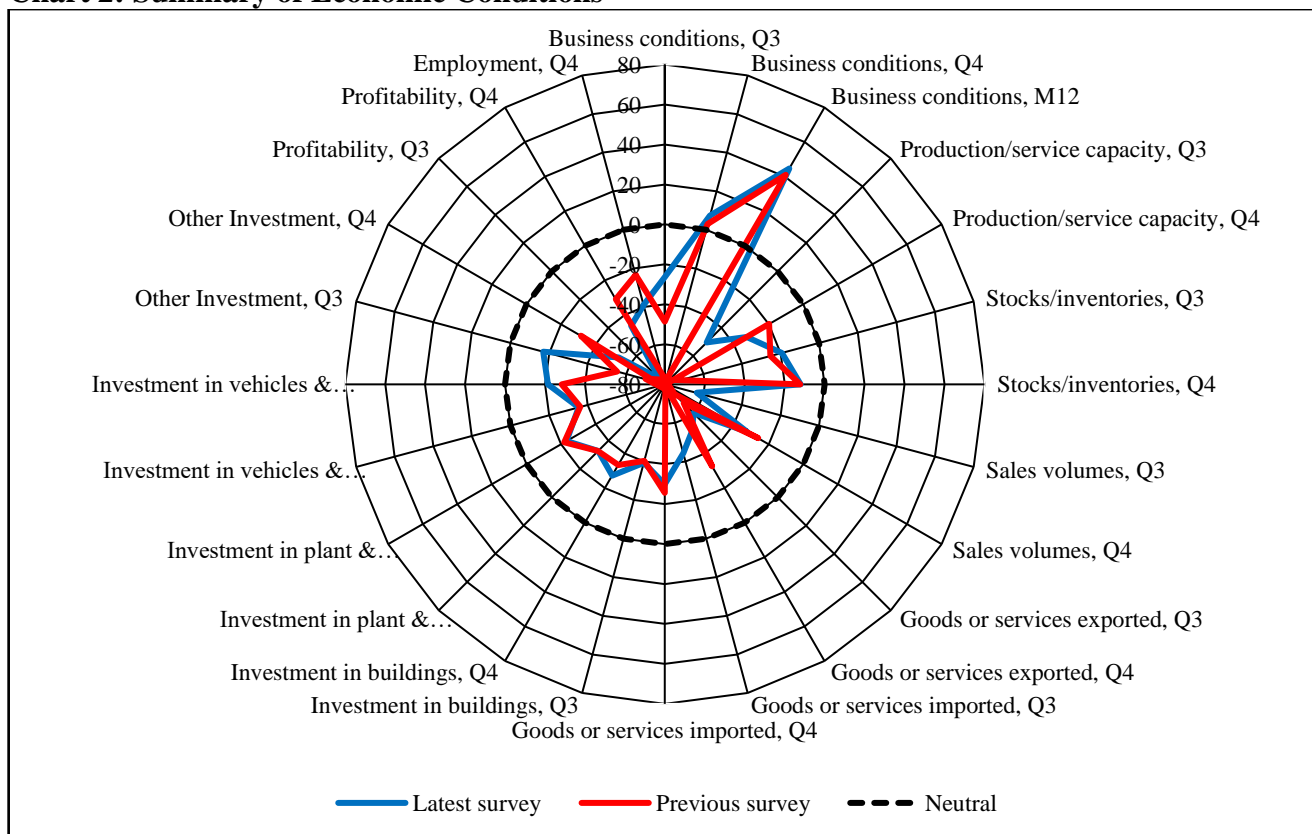
Chart 1: Expected Drivers of Economic Activity



Note: The chart shows net balances on each sector’s expectations about economic performance from the second quarter of 2019 to the fourth quarter of 2020 and the 12 months period to September 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] x 100 x Z].

2.3 Notably, the trade, hotels, restaurants, transport and communications sector was less pessimistic about economic growth prospects in the third quarter of 2020 compared to the previous quarter. This is consistent with the gradual easing of COVID-19 movement restrictions, which initially led to cancelled bookings and closure of a number of tourism, accommodation and restaurants facilities. The finance and business services sector, which expects unfavourable economic performance consistent with firms' prediction of a decline in production and investment during the third quarter of 2020, is also less pessimistic compared to the second quarter. The mining and quarrying sector, which predominantly targets the export market, expects a decline in activity in the third 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 trading due to the COVID-19 pandemic containment measures. However, the sector is also less pessimistic compared to the second quarter. The mining; trade, hotels, restaurants, transport and communications; and manufacturing sectors are optimistic about economic performance in the fourth quarter of 2020, while the rest of the sectors are pessimistic. However, firms across all sectors are optimistic about economic recovery in the twelve month period to September 2021, led by the mining and quarrying sector. The perceived less sluggish economic performance in the current survey compared to the previous one is associated with the gradual easing of COVID-19 travel restrictions and resumption of business operations (Chart 2).

Chart 2: Summary of Economic Conditions

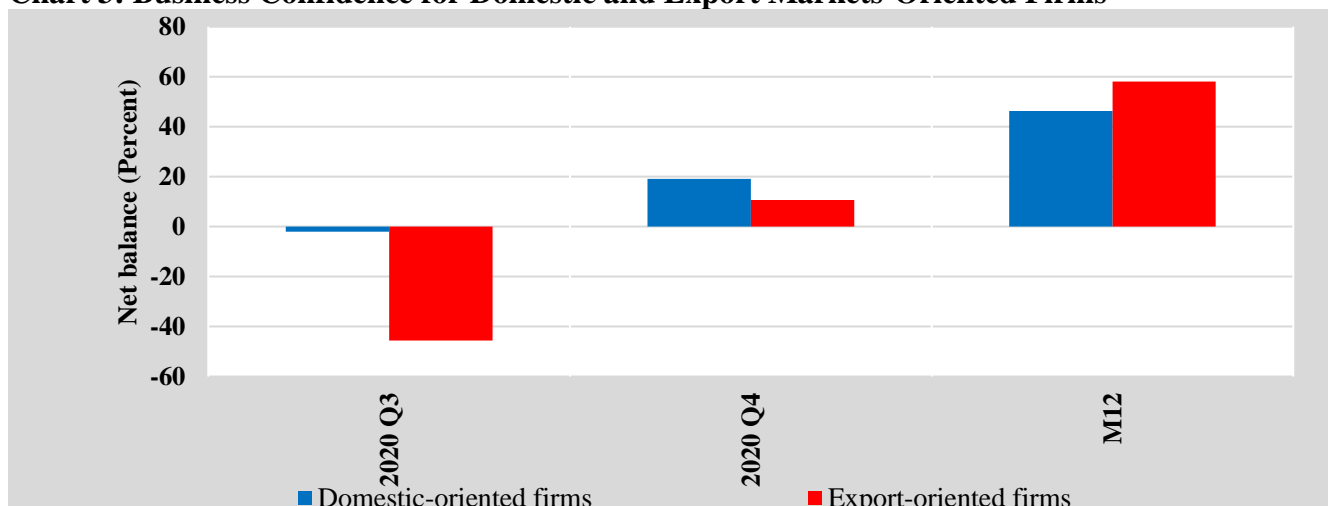


Notes: The chart summarises firms' expectations about business conditions. The blue line represents the results of the September 2020 Survey, while the red line represents the results of the June 2020 survey. The black dashed line is the static position, representing unchanged expectations. The net balances 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: Q3 denotes perceptions about business conditions in the third quarter of 2020, Q4 represents expectations about business conditions for the fourth quarter of 2020, while M12 depicts the perceived business conditions for the twelve-month period from October 2020 to September 2021. Similarly, the red line denotes perceptions about business conditions as envisaged in the previous survey.

2.4 As reflected in Chart 3, the level of optimism among domestic market-oriented firms improves markedly in the fourth quarter of 2020 compared to the third quarter of 2020. It improves further in the twelve-month period to September 2021 (M12) in line with the anticipated economic recovery in 2021. Confidence in the domestic market-oriented firms is mainly driven by firms in the trade, hotels, restaurants, transport and communications; and manufacturing, water and electricity sectors. Similarly, export market-oriented firms are optimistic about business conditions in the fourth quarter of 2020 and in the year to September 2021 (Chart 3). These firms are predominantly in the mining and quarrying business, which is expected to increase output in the fourth quarter of 2020 and the next 12-month period, as trade conditions improve (Chart1).

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



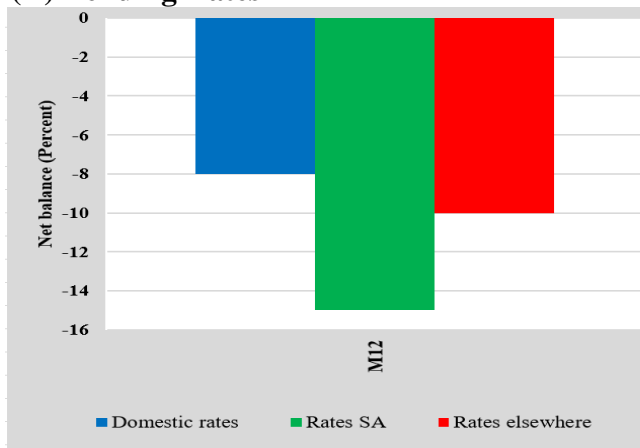
3. Expected Lending Rates and Volume of Borrowing

Lending rates are expected to decline across all markets in the year to September 2021

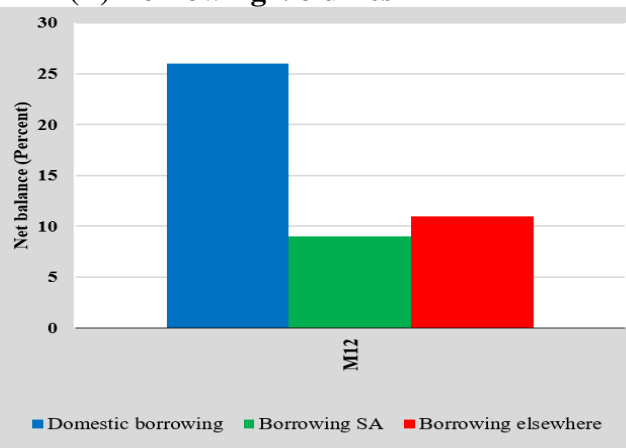
3.1 In general, firms expect the cost of credit (lending rates) to decrease across all markets mainly due to the need for affordable credit to stimulate economic activity in the wake of the adverse impact of the COVID-19 pandemic. A few other firms based their expectation of lower lending rates on the April 2020 policy rate cut by the Bank. Regarding borrowing volumes, firms broadly expect an increase in credit across all markets in the twelve-month period to September 2021, consistent with the expected decrease in lending rates and improvement in business conditions (Chart 4).

Chart 4: Lending Rates and Borrowing Volumes

(A) Lending Rates

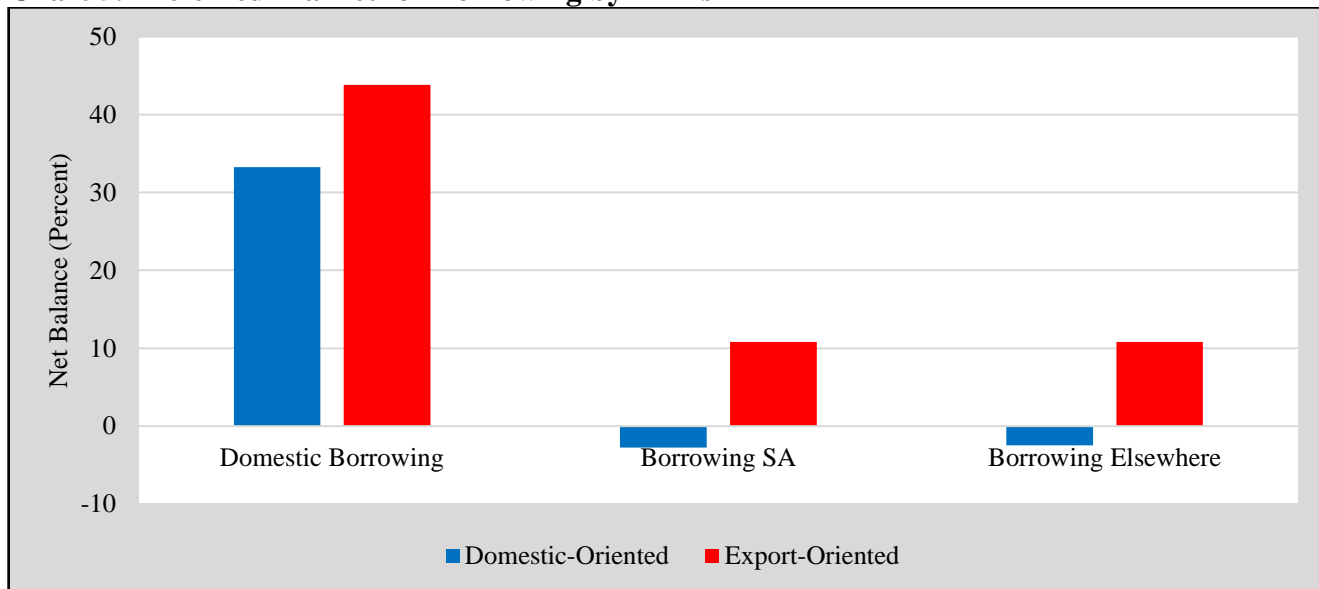


(B) Borrowing Volumes



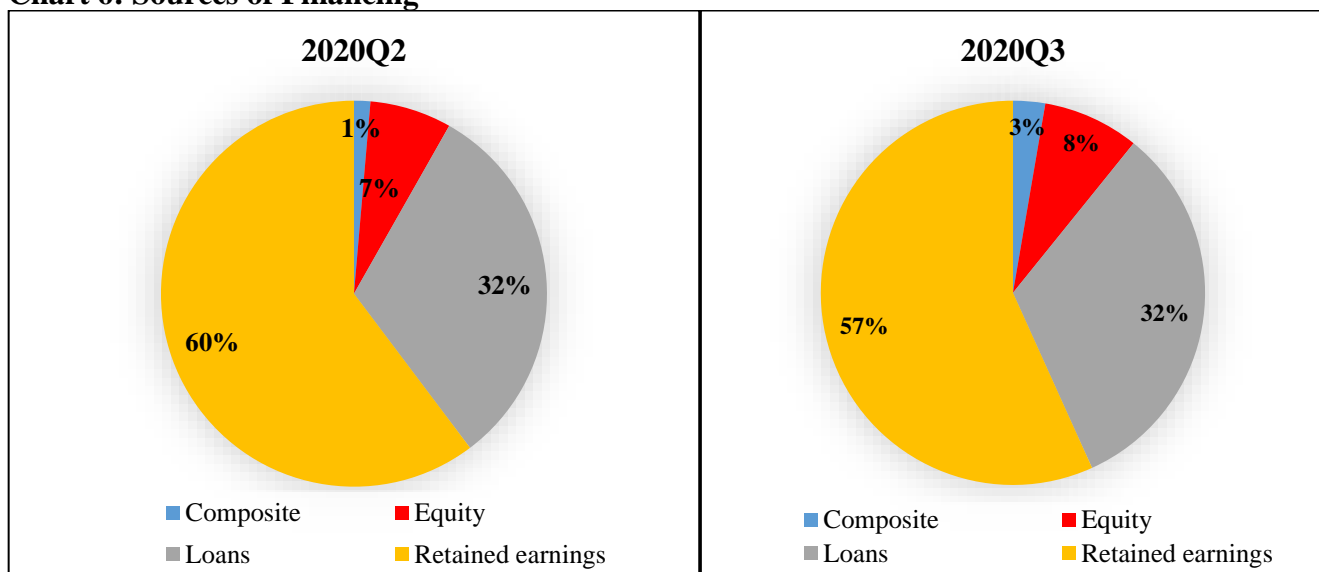
3.2 Both domestic and export market oriented firms perceived overall access to credit to be tight in the third quarter of 2020, but expected interest rates, one of the determinants of credit accessibility, to be lower than in the previous quarter. All firms which predominantly target the domestic market prefer to borrow from the domestic market in 2020 and have no plans to borrow from other markets. Conversely, export market-oriented firms prefer to borrow from all markets, with more preference given to the domestic market (Chart 5).

Chart 5: Preferred Market for Borrowing by Firms



3.3 About 46 percent of the surveyed firms stated that their decision on which market to borrow from was informed by accessibility, while 25 percent cited availability of required loan products. Meanwhile, 21 percent of the firms indicated that their decisions on acquisition of credit were influenced by affordability of suitable credit facilities. 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



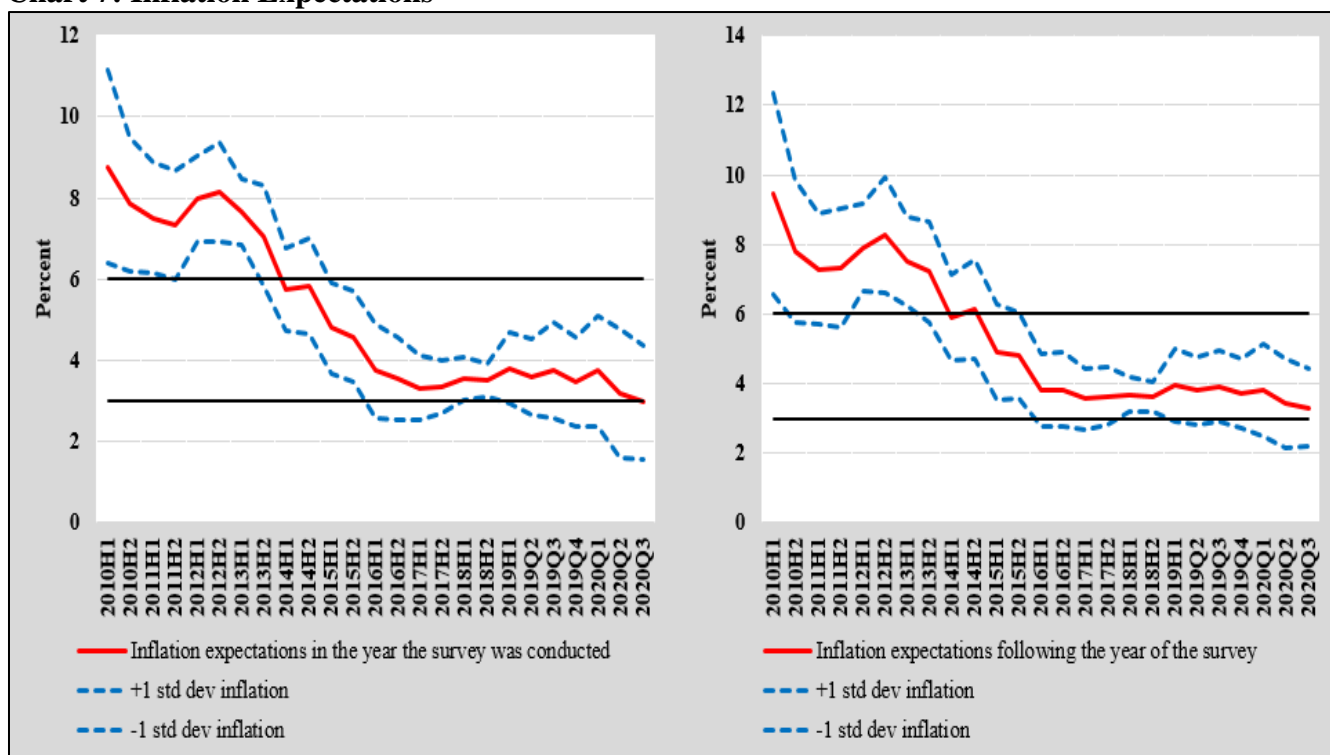
Note: Composite refers to preference for a combination of more than one source of financing (e.g. retained earnings and loans or equity and loans).

4. Price Developments and Inflation

Cost pressures expected to increase in the fourth quarter of 2020

- 4.1 Overall, firms expect cost pressures to rise marginally in the fourth quarter of 2020, mainly attributable to the expected increase in the cost of transport, possibly due to the recent hike in fuel prices and the anticipated rise in international oil prices. 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 2020Q3. However, the divergence is still lower compared to the period around 2010. Firms' inflation expectations for 2020 and 2021 averaged 3 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).

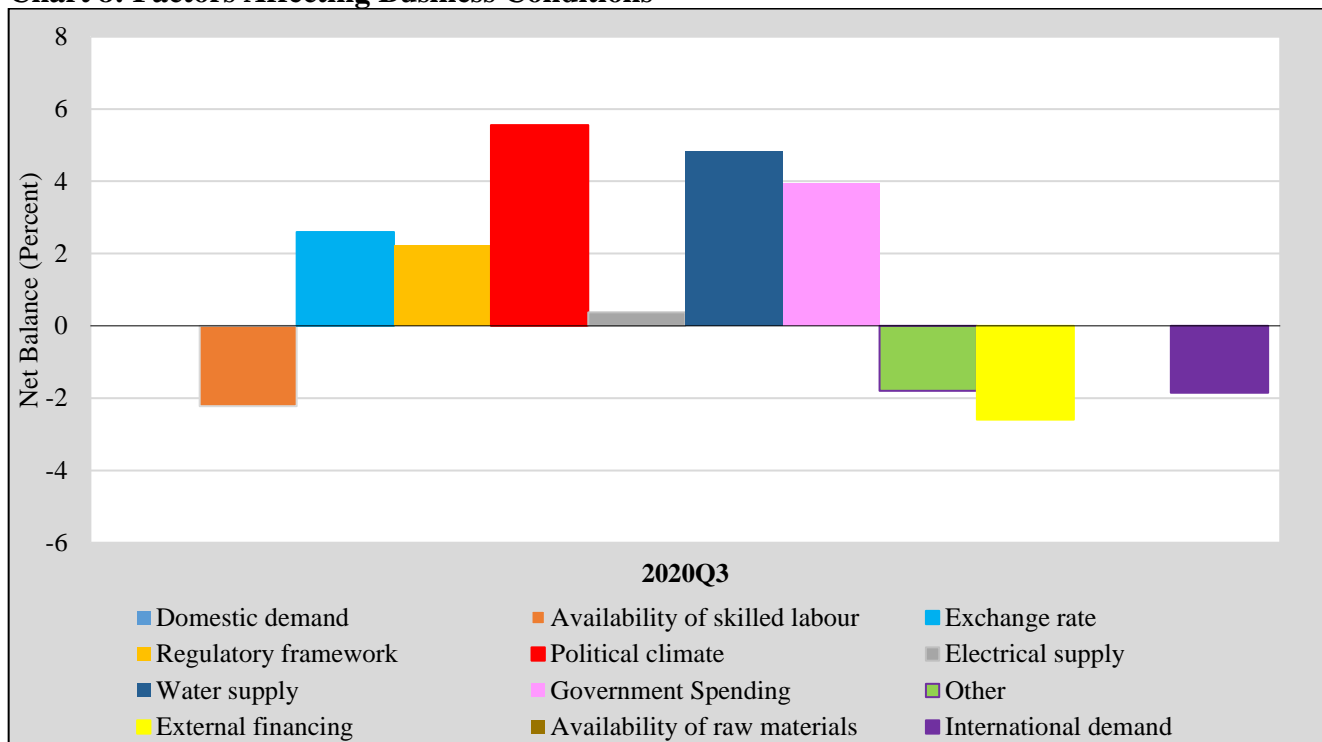
5. Factors Affecting Business Conditions

Difficulty in accessing international finance is perceived to be a major challenge to doing business

- 5.1 In general, firms, predominantly in finance and business services, cited difficulty in accessing financing from abroad as the greatest challenge to their business operations in the third quarter of 2020 (Chart 8). Unavailability of skilled labour was the second most commonly cited impediment to doing business, mainly by firms in the manufacturing and construction sectors, reflecting reported difficulties experienced in recruiting foreign skilled labour. Furthermore, weak international demand was also seen as a challenge to doing business in Botswana, particularly by those in the mining and quarrying, trade, hotels, restaurants, transport and communications sectors. The subdued international demand could be attributed to international travel restrictions as part of COVID-19 containment measures.

5.2 On the positive side, the local political climate, government spending and the current regulatory framework were viewed as being the most supportive factors to doing business in Botswana (Chart 8) in the third quarter of 2020. Firms also indicated that the water sub-sector contributed positively to economic activity, reflecting improvement in water 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 third quarter of 2020 compared to the previous quarter. The reduced level of pessimism reflects the anticipated lower contraction in production; sales; profitability; exports and imports of goods and services; and investment in buildings, vehicles and equipment, plant and machinery, and ‘other’ indicators 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 expect the economy to be stagnant in 2020, while inflation is anticipated to average 3 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. However, businesses anticipate to recover from the impact of the pandemic in more than a year from September 2020.