

# Business Expectations Survey March 2019

## 1. Introduction

### Description of the Survey

- 1.1 The Bank's biannual Business Expectations Survey (BES)<sup>1</sup> collects information on the domestic business community's perceptions about the prevailing state of the economy and economic prospects. In the survey, businesses respond to a range of questions relating to, among others, the business climate and the outlook for economic growth, inflation and business performance over the survey horizon. The survey horizon comprises the half year in which the survey is conducted/current period (H1), the next half year (H2) and the next twelve months (M12).
- 1.2 This report presents results of the survey carried out in March 2019, for the first half of 2019 (H1:2019 - the current period); the second half of 2019 (H2:2019); and M12, the twelve-month period (from the current survey period - first half 2019) to June 2020 (H2:2019-H1:2020). The survey samples 100 businesses in agriculture, mining, manufacturing, water and electricity, construction, trade, transport and communications, as well as finance and business services. The response rate for the current survey is 74 percent.
- 1.3 The survey responses mainly focus on the anticipated direction of change: i.e., whether conditions will improve, worsen or stay the same. The results are then consolidated on the basis of an overall 'net balance', obtained by summing the positive and negative responses for each question/element, weighted by each sector's contribution to nominal Gross Domestic Product (GDP). Thus, by design, the survey responses are predominantly qualitative, yet they provide valuable indicators to facilitate analysis and inform policy decisions.<sup>2</sup> However, capacity utilisation, GDP growth and inflation are simple averages.

### Highlights of the Survey Results

- 1.4 The results suggest that the level of optimism by firms regarding economic activity has declined, compared to the previous survey. Overall, businesses expect lower sales, reduced capacity utilisation and lower profits, compared to the September 2018 survey. Investment in buildings also declined in the current survey, in line with the dampening effect of the tight access to credit in the domestic market, as perceived by the respondents. The anticipated deterioration in business confidence among both domestic-oriented and export-oriented firms with respect to future prospects is expected to affect economic activity. Meanwhile, cost pressure is expected to decrease in the second half of 2019 (Chart 5A), reflecting the anticipated downward pressure on costs of materials, wages and transport. Therefore, firms continue to expect inflation to remain stable and within the Bank's medium-term objective range of 3 - 6 percent going forward.

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<sup>1</sup> The BES will be conducted on a quarterly basis effective June 2019.

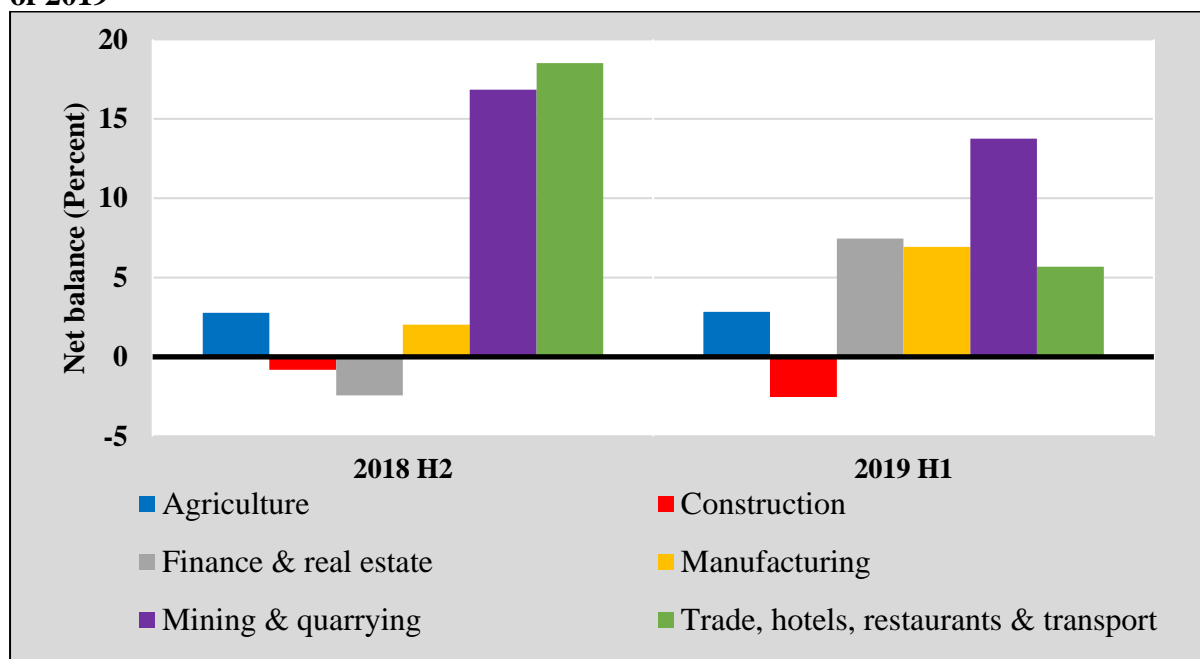
<sup>2</sup> A more detailed description of the survey can be found on the Bank of Botswana website at <http://www.bankofbotswana.bw/index.php/content/2009110615047-business-expectations-survey>.

## 2. Economic Performance and Business Conditions

### Economic Growth is expected to be lower in 2019, than in 2018

- 2.1 Firms are less optimistic about economic performance in 2019 than projections made in the 2019 Budget Speech. Thus, businesses expect the economy to grow by 3.8 percent in 2019, compared to the estimate of 4.2 percent in the 2019 Budget Speech and the 4.5 percent recorded in 2018. It is expected that economic activity in the first half of 2019 will be mainly driven by mining and quarrying, trade, hotels, restaurants and transport, finance and real estate and manufacturing (Chart 1). The optimism in mining and quarrying, and the trade, hotels, restaurants and transport sectors could be attributable to the positive prospects for global demand for diamonds, which are likely to lead to a rise in sales and prices of diamonds as well as prospects for tourism. Construction is the only sector anticipated to produce less output in the first half of 2019, compared to the second half of 2018, possibly due to the completion of some of the construction projects under the Economic Stimulus Programme and some private construction projects, particularly in the Gaborone Central Business District (CBD) and Palapye, and the lower rate of increase in funds allocated for the development budget in the current financial year.

**Chart 1: Expected Drivers of Economic Activity in the Second Half of 2018 and First Half of 2019**

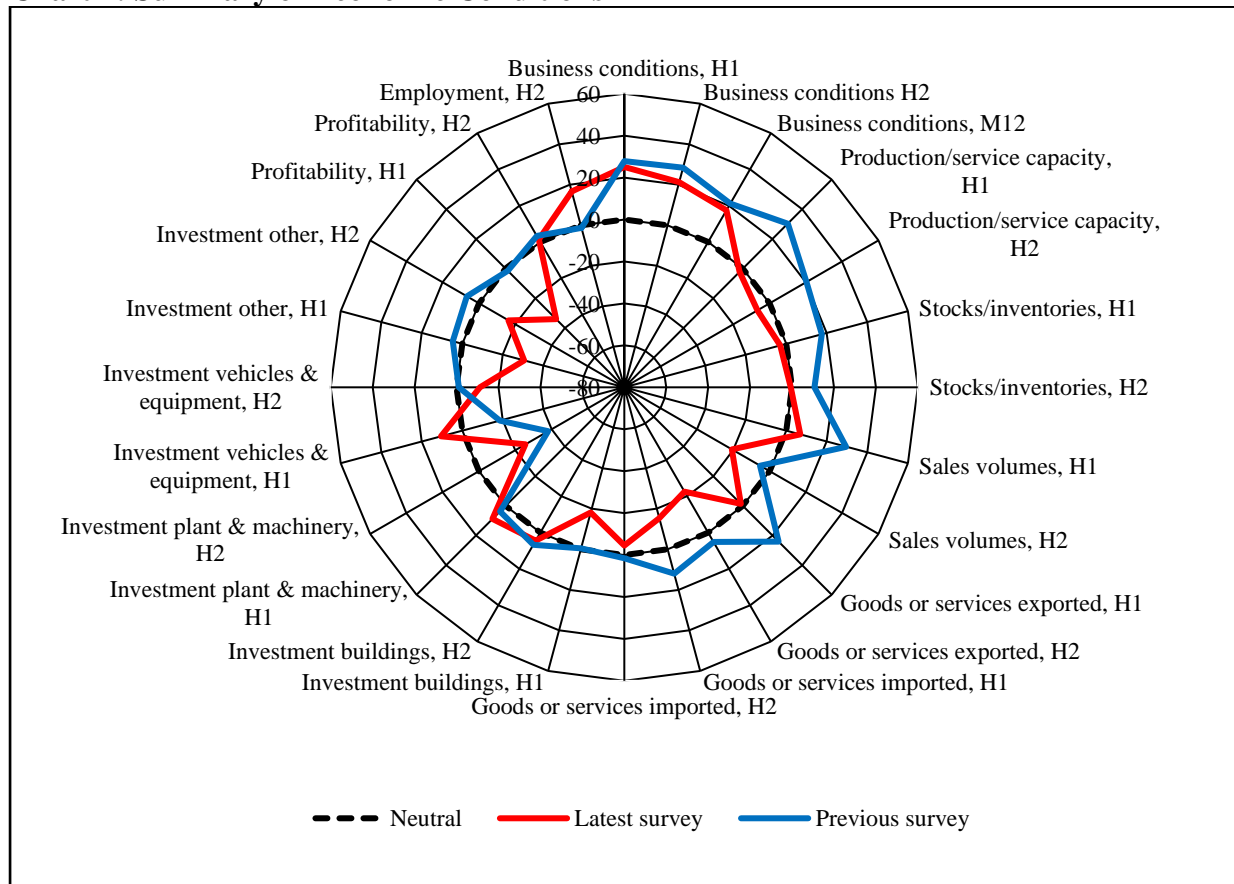


Note: The chart shows net balances on each sector's expectations about economic performance in the second half of 2018 and first half of 2019. The net balances are weighted by each sector's relative share in GDP. For example, for a sector with (P+N) members in the sample, of which 'P' indicated positive 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 Overall, business conditions are expected to remain positive during the first half of 2019, yet slightly weaker than in the final half of 2018 (Chart 2). Optimism among businesses declined marginally from a confidence level of 28 percent in the second half of 2018 to 25 percent in the current survey period, and it is expected to fall to 21 percent in the second half of 2019. Furthermore, firms anticipate reduced levels of: capacity/resource utilisation; production/service capacity; sales; stocks/inventories; profitability; and investment on buildings and 'other investment' during the first half of 2019, compared to the second half of 2018. The decline in investment on buildings and 'other' is in line with the dampening effect arising from the tight access to credit, as perceived by the

business community. On the other hand, intentions to invest in vehicles and equipment, and plant and machinery have strengthened, mainly among firms in consumer-related services, such as retail trade, hotels and restaurants.

**Chart 2: Summary of Economic Conditions**



Notes: The chart summarises firms' expectations about business conditions. The red line represents the results of the March 2019 Survey, while the blue line represents the results of the September 2018 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.

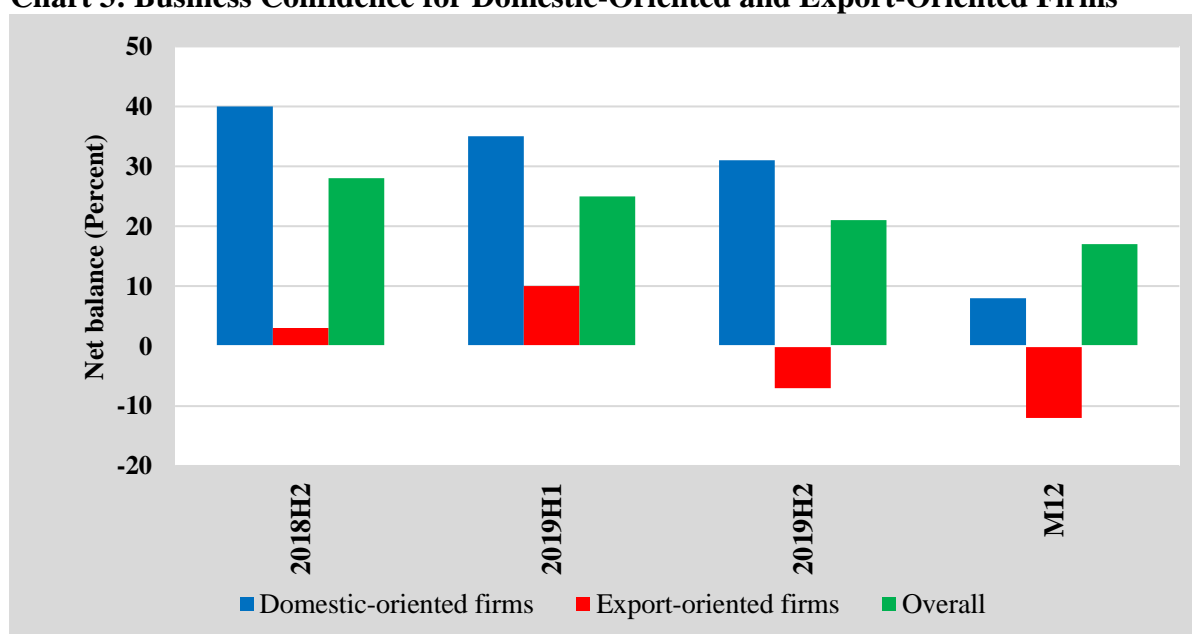
The results of the survey are interpreted as follows: H1 on the red line denotes perceptions about business conditions in the first half of 2019 (H1:2019) made in the March 2019 (current) survey, while H2, still on the red line, represents expectations about business conditions for the second half of 2019 (H2:2019) made in the same survey. M12 on the red line represent the perceived business conditions for the twelve-month period from the second half of 2019 to the first half of 2020 (H2:2019-H1:2020), made in the March 2019, survey.

Similarly, H1 on the blue line denotes perceptions about business conditions in the second half of 2018 (H2:2018) made in the September 2018 (current survey period then), while H2 on the blue line, represents expectations about

business conditions for the first half of 2019 (H1:2019) made in the same survey. Finally, M12 on the blue line represents the perceived business conditions for the year 2019 (H1:2019-H2:2019).

2.3 The slippage in perceptions about the overall business conditions in the first half of 2019 arises from the declining optimism among domestic-oriented firms, which comprise about 91 percent of the current survey respondents, compared to the second half of 2018 (Chart 3). This group of firms is also less optimistic about business conditions in the second half of 2019 and in the 12-month period to June 2020 (M12). Meanwhile, export-oriented firms are more optimistic about the first half of 2019 compared to the second half of 2018. However, their outlook on business conditions becomes negative in the second half of 2019 and in the 12-month period to June 2020. In general, the declining business confidence among both domestic-oriented and export-oriented firms is expected to negatively affect economic activity, as reflected in, among others, the anticipated decline in sales, capacity utilisation and investment in plant and machinery.

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



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

#### Domestic lending rates are expected to rise in both 2019 and 2020

3.1 Firms expect both lending rates and the volume of borrowing from the domestic market to increase in the second half of 2019 and first half of 2020 (Chart 4). However, more firms expect both lending and borrowing rates to be higher in the first half of 2020 than in the second half of 2019. Similarly, in South Africa, lending rates are expected to rise in both the second half of 2019 and first half of 2020. The expected rise in lending rates in South Africa is consistent with the consensus forecast for market rates, obtained from Bloomberg<sup>3</sup>, for the same period. In line with this, borrowing volumes from South Africa

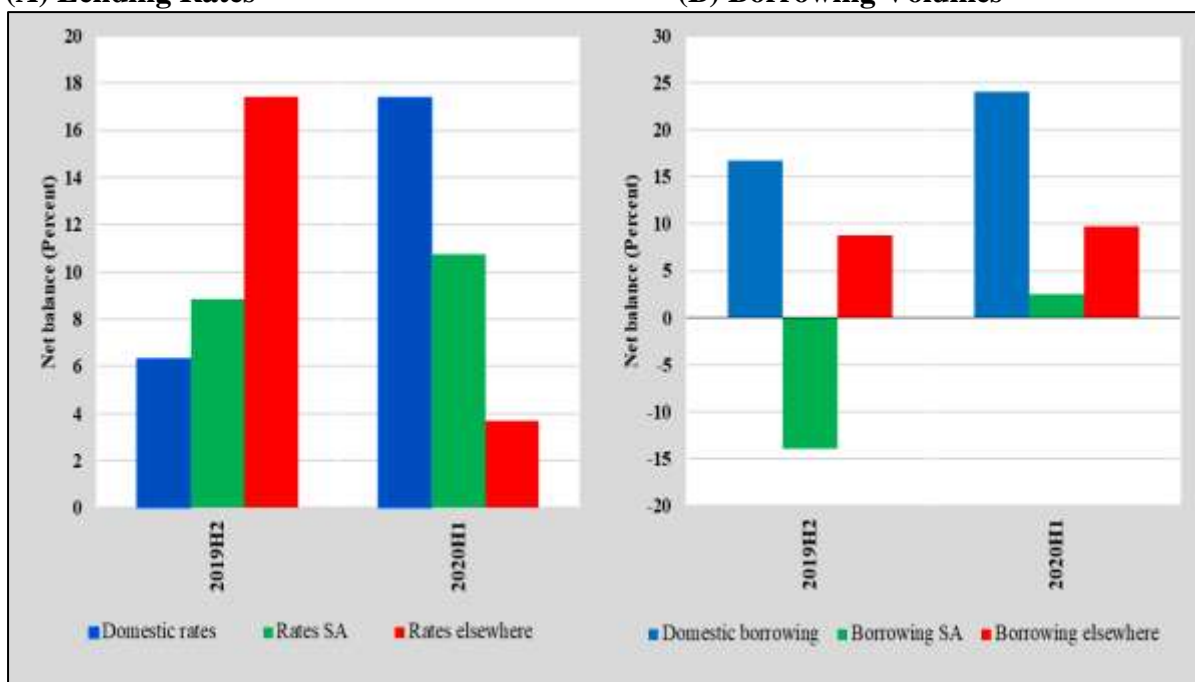
<sup>3</sup> A computer software system that enables professionals in the financial services sector and other industries to access, monitor and analyse real-time financial market data and place trades on the electronic trading platform. The system also provides news, price quotes, and messaging across its proprietary secure network. Most large financial firms have subscriptions to the Bloomberg Professional Services.

are expected to decline in the second half of 2019, before rising in the first half of 2020. The upward pressure on lending rates elsewhere (any market other than Botswana or South Africa) is expected to drop significantly in the first half of 2020, compared to the second half of 2019, while the expected increase in borrowing volumes over the period is marginal.

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

**(A) Lending Rates**

**(B) Borrowing Volumes**



#### 4. Price Developments

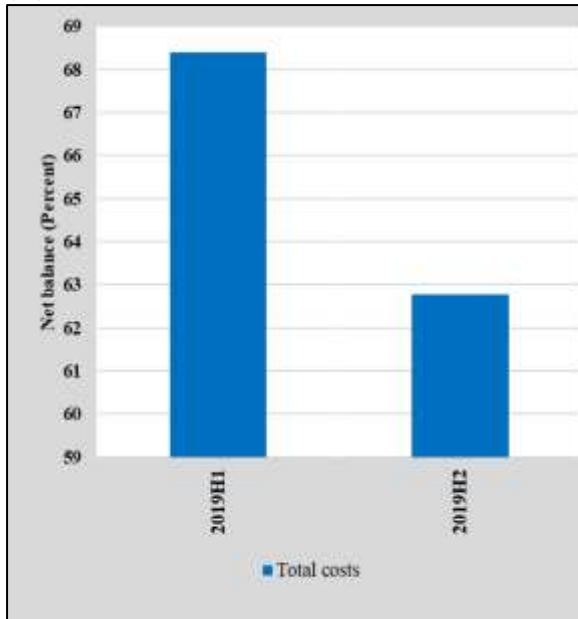
##### Pressure from rising costs expected to ease

4.1 Overall, there is a strong expectation of cost escalation. However, pressures on rising costs (materials, wages and transport) are expected to ease slightly in the second half of 2019, compared to the first half of 2019 (Chart 5A and Chart 5B).

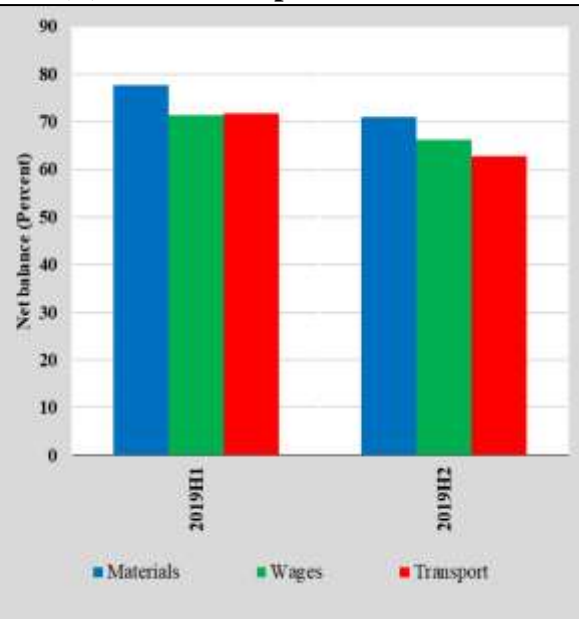
**Chart 5: Cost Trends**

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**(A) Overall Costs**



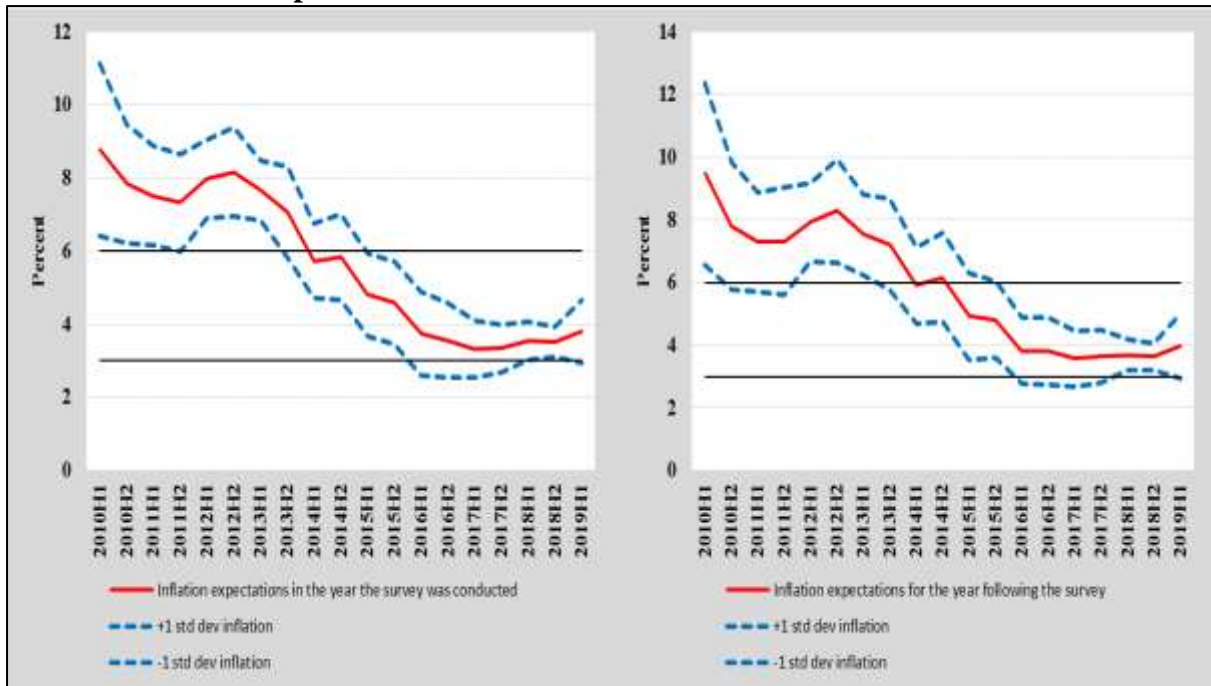
**(B) Cost Decomposition**



**Inflation is expected to remain within the 3-6 percent objective range**

4.2 Although slightly higher in the current survey, firms' expectations about the 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 6). Furthermore, uncertainty about future inflation has, on the whole, declined as shown by the smaller standard deviation (std dev) from the average expectations despite the noticeable divergence in the current survey. Firms' inflation expectations have averaged 4 percent since 2016, suggesting that inflation expectations are well anchored within the Bank's objective range.

**Chart 6: Inflation Expectations**



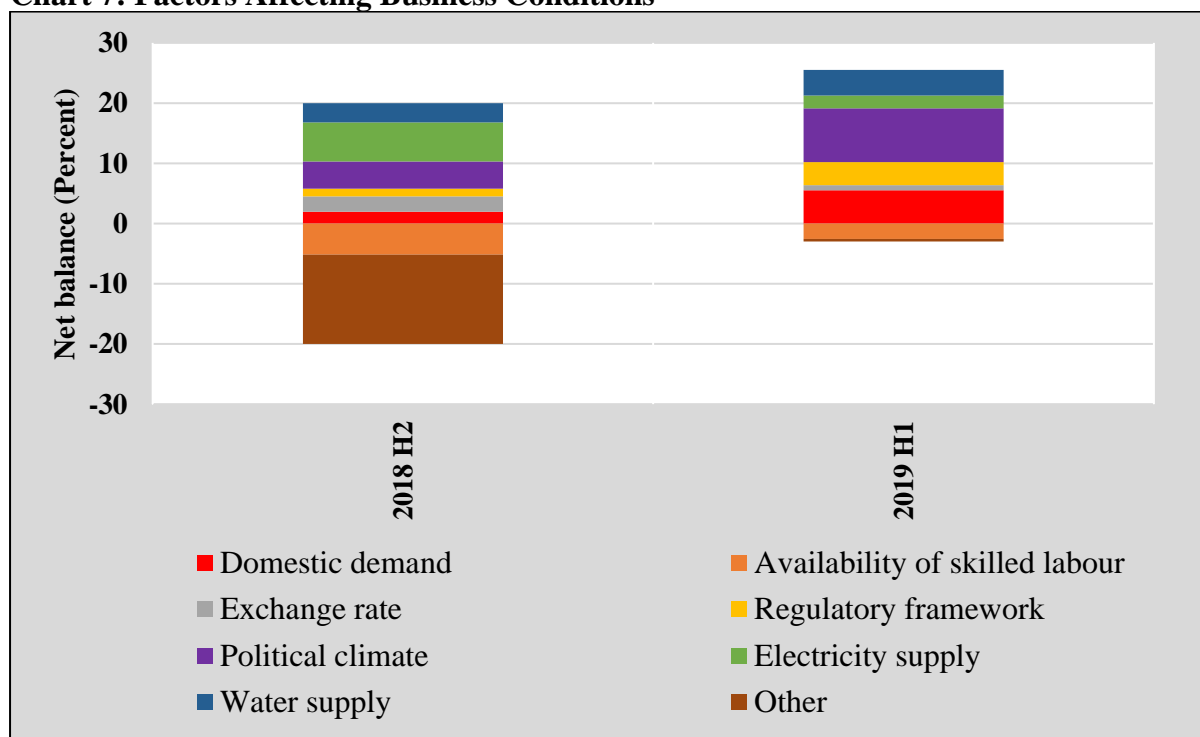
Note: The chart shows the average of inflation expectations across different surveys, as well as the standard deviation for the inflation expectations of firms.

## 5. Factors Affecting Business Conditions

### Unavailability of skilled labour is perceived to be a major challenge to doing business

- 5.1 Unavailability of skilled labour was cited as the greatest challenge facing businesses (Chart 7) in the first half of 2019, arising from the reported difficulties experienced in recruiting foreign skilled labour. Difficulties in sourcing skilled labour is more pronounced in the construction sector, followed by trade, hotels, restaurants and transport. The 2018 Global Competitiveness report has also highlighted lack of skilled labour among the main challenges of doing business in Botswana. Meanwhile, the political climate, domestic demand and regulatory framework are viewed as being supportive to doing business in Botswana during this half year. However, the number of firms viewing lack of skilled labour as a challenge has fallen notably compared to the previous survey. An interesting observation from the survey is that, 'other' (any other reasons besides those stipulated in Chart7), which from the previous survey was viewed as a major challenge to doing business due to the dominance of government spending, is no longer considered a major impediment as government spending is now viewed to be neutral. This may be partly attributable to a reduction in responses from sectors, such as manufacturing and construction, which rely mostly on government as a major client. Another observation is that water and electricity continue to be viewed as contributing positively to the business climate, reflecting ongoing efforts to improve the supply of these utilities through measures such as the implementation of the North-South Carrier 2 water project and the North-West Transmission Grid electricity connection.

Chart 7: Factors Affecting Business Conditions



## 6. Conclusion

- 6.1 Overall, business conditions are perceived to have marginally weakened compared to the last survey, and are expected to decline further in the second half of 2019. The cost pressures are expected to decline in the second half of 2019, compared to the first half of the year. As firms' inflation expectations seem to be anchored at rates of just below 4

percent, the survey responses are consistent with the official projection that inflation will remain within the Bank's objective range of 3 – 6 percent going forward.