

# BOTSWANA

## Key conditions and challenges

**Table 1** 2019

Population, million	2.3
GDP, current US\$ billion	18.3
GDP per capita, current US\$	7894.6
International poverty rate (\$ 19) <sup>a</sup>	14.5
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	36.5
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	59.1
Gini index <sup>a</sup>	53.3
School enrollment, primary (% gross) <sup>b</sup>	103.2
Life expectancy at birth, years <sup>b</sup>	69.3

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2015), 2011 PPPs.

(b) WDI for School enrollment (2015); Life expectancy (2018)

Botswana's economy is set to contract by a record 9.1 percent this year as COVID-19 induced global demand shocks batter the diamond and tourism industries. Poverty is expected to increase to 60.2 percent in 2020, up from 56.7 in 2019, using the upper-middle-income country threshold. While favorable developments in the global diamond industry are central to the short-term recovery, COVID-19 has accentuated the need for a transformation in Botswana's growth model to develop a diversified and robust economy, and accelerate job creation.

Botswana's diamond-cum-public sector-led development model is showing its limitations: growth remains sluggish and ailing job creation. Growth averaged at 3.6 percent over the last decade, below the 6 percent average between the early 1990s and 2000s. Weakened global demand has kept diamond proceeds below pre-global financial crisis levels. Increased competition from synthetic diamonds and higher production costs have added further pressures. Continued fiscal expansion to support growth has created large fiscal deficits, eroded buffers and weakened the external position. Low capital accumulation and sluggish productivity has constrained growth in the non-diamond economy. Meanwhile, unemployment has remained high, largely as the private sector struggles to create jobs due to high costs/barriers to doing business, and inequality is stark. COVID-19 has exacerbated existing economic and social challenges, setting back some gains made in poverty reduction over the past 5 years. It has also underscored the urgent need for a significant shift towards a more diversified economy. Botswana's 2020/21 – 2022/23 Economic Recovery and Transformation Plan (ERTP), which focuses on "building-back-better" by (i) supporting the economic recovery, (ii) accelerating structural transformation and (iii) building resilience, provides the footing– but will require significant financing and political

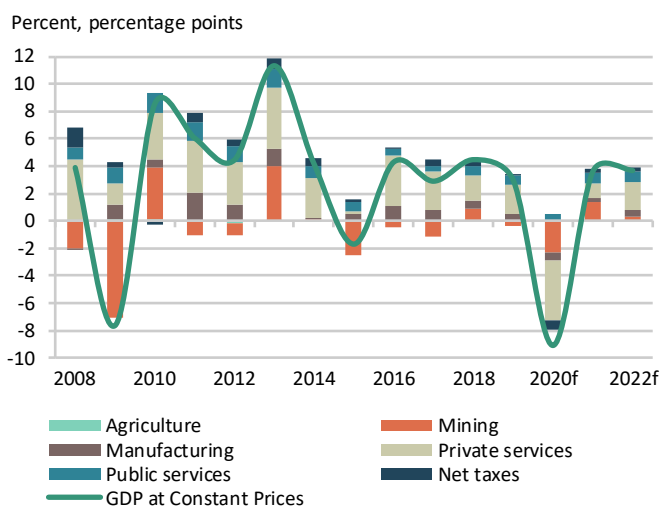
commitment to materialize. Improving public sector spending efficiency, rationalizing the SOE sector and addressing constraints that hinder private sector engagement in trade and investment are central to the recovery.

The impact of the pandemic will depend on how it continues to unfold, both locally and abroad. Botswana's increase in cases since July means more protracted travel restrictions and lockdown measures could be expected - ultimately slowing the pace of the recovery. Second waves of the pandemic in key export markets such as Europe and Central Asia, as well as a sluggish recovery in the diamond market could challenge the recovery.

## Recent developments

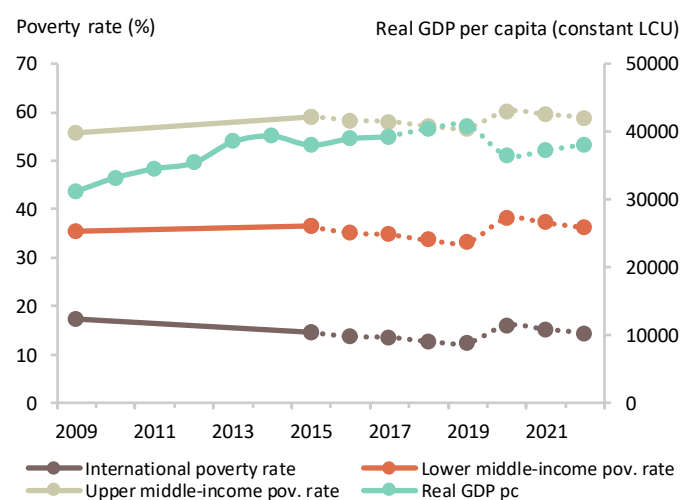
COVID-19 has pulled the breaks on economic activity. Global demand for diamonds has fallen sharply and containment measures have reduced processing and polishing capacity. Locally, inventories have continued to accumulate as sales remain muted due to cancellations of sights for diamond sales following travel restrictions. Production has also been limited: Q2 output narrowed by almost 70 percent year-on-year. Travel restrictions have severely affected tourism, with surveyed entities reporting a 72 percent revenue loss in March - a trend likely to continue in 2020. Overall, business surveys point to deteriorating conditions including declines in production, sales, profitability, investments and trade. Unemployment is on the

**FIGURE 1 Botswana** / Actual and estimated sectoral contributions to Real GDP growth



Sources: Statistics Botswana and World Bank staff estimates.

**FIGURE 2 Botswana** / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

rise, and the youth have been disproportionately affected. The unemployment rate (based on individuals who were actively seeking work) reached 23.2 percent in Q1:2020, up from 22.2 percent in Q4 and 20.7 percent in Q3 of 2019.

Government finances are under significant pressure. Mineral revenues, which represent over a third of overall collection, narrowed by 96 percent in May (y/y) due to low diamond production and sales. This, along with measures introduced to alleviate the impact of COVID-19 on businesses (including tax deferrals) will lead to a 20 percent reduction in overall revenue collection (y/y). Efforts to strengthen health services and support households will create added spending pressures, with the budget deficit widening to 7.2 percent of GDP (from 4 percent last year). Financing pressures are evident. The Government Investment Account (GIA) shrank by 40 percent to US\$ 1.2 billion in the 12 months to June. With 4 years of consecutive deficits eroding existing buffers, public debt levels are set to pick up to 24 percent of GDP (from 18 percent last year), with a significant amount drawn from through the issuance of government bonds.

The COVID-induced shock to diamond exports has severely weakened the external position. After slipping into negative territory last year for the first time since

2012, Botswana's current account deficit is set to widen due to a sharp decline in diamond exports (which account for 90 percent of exports). Exports were close to zero in April and in May due to travel restrictions. While lower imports and expected SACU transfers could alleviate pressures on the external account, these are not enough to counter the significant decline in mineral exports. Notably, reserves have fallen by US\$400 million between April and June reflecting a widening trade balance.

## Outlook

Output is set to contract by 9.1 percent this year as the economy (particularly mining, hospitality and service sectors) contends with the pandemic. Developments in the global diamond industry will have a telling impact on the short-term recovery given dependence on the precious commodity. The expected pickup in mining production following the sharp contraction this year, along with the easing of travel restrictions and a resumption in diamond sales could see the economy rebounding to 3.6 percent in 2021. This said, and with the economic impact of COVID-19 likely to be deep and long-lasting, further catalysts for longer lasting growth will be required. The poverty

rate is projected to reach 60.2 in 2020, measured using the upper-middle-income country poverty line (US\$5.5/person/day in 2011 PPP). Consequently, an additional 110,000 people will be living in poverty in 2020, reaching a total of 1.5 million – a record-high for Botswana.

Fiscal pressures will remain a challenge, particularly as Botswana embarks on the much-needed ERTF to address structural challenges and COVID-19's long-term impact. With the ERTF expected to cost approximately US\$ 1.7 billion over a period of 2.5 years, and a similar amount of funding required to cover the budget deficits over the same period, Botswana's fiscal position is likely to remain under pressure in short-to-medium term. This, along with a sharp decline in SACU transfers in 2021/22 due to the deferred impact of COVID-19, will widen the budget deficit next year.

The anticipated recovery in diamond exports will help improve the trade balance next year, but the gradual increase in imports from resumed economic activity allied with lower SACU transfers will likely keep the current account in a deficit position over the medium term. Efforts to diversify exports and attract foreign investment could lead to an improvement in the external position, although this could take some time.

**TABLE 2 Botswana / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
<b>Real GDP growth, at constant market prices</b>	2.9	4.5	3.0	-9.1	3.6	3.7
Private Consumption	6.5	4.1	3.5	-2.5	1.9	2.2
Government Consumption	1.5	3.7	3.3	-10.4	7.6	8.0
Gross Fixed Capital Investment	-8.8	8.1	6.5	6.8	0.5	-8.4
Exports, Goods and Services	-16.0	7.1	-16.6	-45.3	39.7	29.8
Imports, Goods and Services	-21.4	12.3	6.7	-24.7	20.0	10.5
<b>Real GDP growth, at constant factor prices</b>	2.8	4.5	3.2	-9.1	3.6	3.7
Agriculture	1.9	2.6	-0.1	1.5	1.3	1.1
Industry	-2.5	5.5	0.2	-13.8	6.2	3.1
Services	5.1	4.1	4.4	-7.5	2.7	4.0
<b>Inflation (Consumer Price Index)</b>	3.3	3.2	2.8	2.0	3.0	4.0
<b>Current Account Balance (% of GDP)</b>	5.3	0.6	-7.6	-6.9	-9.9	-4.9
<b>Net Foreign Direct Investment (% of GDP)</b>	1.5	1.1	1.2	0.5	0.6	0.7
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-1.1	-4.7	-4.0	-7.2	-7.8	-5.7
<b>Debt (% of GDP)</b>	18.3	18.1	18.3	24.4	26.7	26.9
<b>Primary Balance (% of GDP)<sup>a,b</sup></b>	-0.6	-4.1	-3.5	-6.4	-7.1	-5.1
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>c,d</sup></b>	13.5	12.7	12.4	16.0	15.2	14.5
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>c,d</sup></b>	34.9	33.7	33.3	38.2	37.3	36.3
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>c,d</sup></b>	58.0	57.1	56.7	60.1	59.5	58.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate. f = forecast.

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).

(b) Refers to Public and Publicly Guaranteed debt.

(c) Calculations based on 2015-BM THS. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(d) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.